

ADEQUATE FUNDING FOR THE NEEDS OF THE STATE vs FISCAL CRISIS

As everyone well knows, we have severe economic problems in this country. Colorado is reeling from a shortage of tax revenue. This has affected the 2008/09 and 2009/10 budgets with a shortage of over a BILLION dollars, and shortages will probably continue through 2013. In Colorado taxes are low and services are lean; both among the lowest in the country. Everyone is suffering, and it is no different for the State of Colorado.

A few years ago, a comment was heard at the Legislature that stated Government should do those things citizens cannot do for themselves. As the population of the State continues to increase, its needs do too. And when the economy is down needs increase even more. *This is easily forgotten.* Is a rainy day fund needed? Of course it is, but Colorado doesn't have one.

What are the problems? There are many. Lack of revenue seems to be the primary factor constraining state services, and revenue is predicted to keep falling for the next few years. Unemployment (10%) is one of the reasons. Because the unemployed pay little or no income tax, state revenue is reduced. While at the same time with low or no income, the unemployed need help from state services. Retail trade has also been declining causing a reduction in sales tax revenue.

The operation of the State is funded by the General Fund (GF) and is made up of 20 departments. The GF represents about 40% of the total budget, and its revenue comes from income and sales taxes. Cash funds (fees for services) and federal funds account for the other 60%. Eighty-three percent of GF spending is mandated for just four of the twenty departments. These four are Health Care, Corrections, Human Services and K/12 Education that uses the most (43%). That 83% figure is predicted to continue to grow if the state's average growth rate continues. This means that eventually there will be no money for the other departments. Then what? Are there things in the budget that have outlived their usefulness? When a system responds by producing too little revenue relative to the economy, problems result. If tax receipts fall too sharply, necessary services have to be cut or taxes raised. When revenue is high some should be set aside for a rainy day fund for use when revenue is low.

There are other obstacles to budgeting in Colorado: In 1992, Colorado voters passed the Taxpayers Bill of Rights (TABOR). TABOR, among other things, allows spending limits to be increased for state spending each year by inflation plus population growth and requires all revenue that exceeds the spending limits to be refunded to the taxpayers the next fiscal year. However TABOR spending limits are not really the problem lately because state revenue during this fiscal crisis has not reached these limits. NO OTHER STATE HAS SUCH STRICT RESTRICTIONS AS ARE IN TABOR IN ITS CONSTITUTION.

Constitutional amendment 23 passed in 2000 and mandates K/12 education to be funded at the rate of inflation plus 1%. And the constitutionally earmarked spending for education illustrates the problem. When lawmakers gather next year, they must find at least an addition \$300 million for K/12 education. And if local property taxes come in lower because of reassessment, the state must make up the difference.

Sentencing laws mandate the building and staffing of new prisons.

Federal mandates for Medicaid also hinder budget building. And with high unemployment and increased population, the Medicaid caseload has continued to increase.

We also have the Gallagher Amendment passed in 1982 that mandates how property tax rates are determined. As a result of the Gallagher formula, presently business property taxes are high, and residential property taxes are very low. If you live in a district with little or no business, revenue from property taxes is low, and if you live in a district with a great deal of business, such as Denver, property tax revenue is much greater.

Another big problem is roads. Roads need money, lots of money. State funds for transportation are in short supply, and Federal funds are diminishing. From \$500 to \$800 million per year is necessary for roads to be maintained properly according to Russell George who is head of the Transportation Dept. The Department of Transportation funds do NOT come from the GF, but rather from gas taxes that are maintained in the Highway Users Tax Fund (HUTF). The gasoline tax is 22 cents per gallon for standard

fuel and 20.5 cents for special fuels, and these taxes must be shared with cities and counties. State gas taxes have not been raised for 17 years. There are Federal funds for transportation, but they are all earmarked and are diminishing. SB 108 sponsored by Senator Gibbs and Representative Rice passed this year. It calls for increased vehicle registration fees to be assessed at the time the vehicle is registered. The income is to be used for roads and bridges and is expected to raise \$250 million per year and creates a new source of revenue for Transportation. However the public has heavily criticized these fee increases. Transportation is big business. It needs big dollars because the system is big.

Higher Education is a department whose funding has been cut so low that there has been talk of cutting its funding altogether, and allowing it to run on its own. But this would be dangerous. Among other things, by becoming private, tuition could very well be raised so much, that many students would be unable to attend. We need to be able to educate our kids. If a child doesn't want to college, that is fine, but we must provide the means to allow him to do so if and when he decides that is what he wants to do.

THE CONSTITUTION IN COLORADO REQUIRES A BALANCED BUDGET, AND ALLOWS NO DEBT!!!

In order to balance the budget for FY 2008/09 and FY 2009/10 there have been cuts in every department of the GF. One time money from the Federal economic stimulus fund and from cash fund reserves has also been used to help balance the budget. When this is gone, then what? There is simply not enough money to pay for the services the public has come to expect. The budget has been cut and cut, and cut, and some of these cuts will probably never be replaced. So how should the system be fixed? First it should be thoroughly examined. Are revenues from taxes and fees sufficient? Are the services of the highest quality at the lowest possible cost, and are all really necessary? Do we need a tax increase? In these hard times, will the voters approve a tax increase? Do we need a study? It has been done before: the last in 1959. Is it time to take another critical look at how the budget process works now to see if or how it needs to be changed? During the summer a 16 member committee of lawmakers and citizens started meeting to discuss budget solutions. The group is called the Long-Term Fiscal Stability Commission. They have been meeting two days a month, from 9 to 5 and will continue through November. At that time let us hope they will have something good to report. The members of the commission are well informed, and so far their discussions have been meaningful.

Presently the people in Colorado do not think the state is doing a very good job. The public needs to be educated. The state must be open. It must go to the public. It must hear from well-informed voters.

While discussing the budget one legislator felt Colorado should have the following three goals: 1. To bring new high paying jobs to Colorado. 2. To provide support for struggling families, and 3. To build a world-class education system. This is good, but how to pay for it is again the question.

Another stated that many Colorado family's income levels aren't keeping up with expenses. And like these families, the State needs to tighten its belt a notch or two to adjust. The tightening has already been done, but demand for services continues to increase.

Adequately funding the needs of the state is very difficult when dealing with an on going fiscal crisis. Even a Rainy Day fund can't help forever. Everyone knows there is a shortage of revenue, but no one really knows what to do about it without raising taxes. Except to hope that this recession is over long before 2013. There needs to be an end to unemployment, and the public needs to start spending money again. Revenue to adequately fund the needs of the state, meaning the General Fund, comes from income and sales taxes.

Discussion Question: Given the fiscal and constitution constraints facing the state, what do you believe are the most important challenges to be addressed?