

# Colorado's Economic Recovery Plan



Guest Editorial  
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## *Sometimes you DO get what you pay for...*

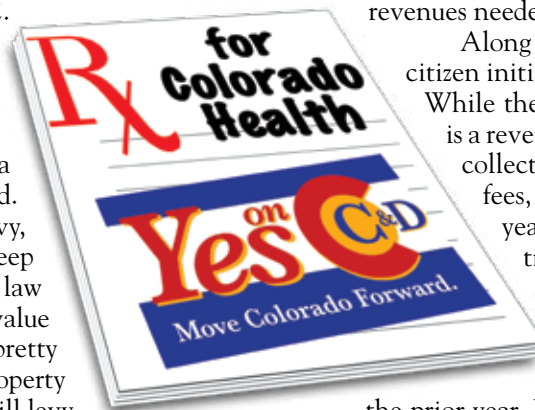
The Referenda C/D campaigns are starting to heat up, and we will all be inundated with information, misinformation, and the unavoidable opinions of the “talking heads” on how we should vote. I shall try to explain, as objectively as possible, what ref C/D are about and why they are needed to bail the State out of the fiscal mess it finds itself in. Four key pieces of legislation collided with the recent recession to create a deep fiscal hole from which we cannot escape. It may all be as clear as the Platte River when we're done, but let's give it a try.

First came Gallagher, a citizen initiative that became a Constitutional Amendment in 1982. It fixed the ratio of collected property taxes to 45% from residential property and 55% from commercial property. Further, the assessment rate for commercial property was set at a fixed rate that could not be changed. The residential tax rate, the mill levy, was supposed to float up or down to keep the ratio steady. In 1982 when the law passed, 45% of the total property value was residential, and so it worked out pretty well. Today, however, 75% of all property value is now residential, and so the mill levy has been lowered to keep 45% of the total from this source. Later, when TABOR passed, it became illegal to raise the mill levy without voter approval, even if the ratio would allow it. The overall effect has been lowered property taxes, and local tax collections have not kept up with obligations. Local tax districts, which use these taxes to fund primarily public schools but also fire, police and local road maintenance, to name a few, have found tax streams drying up. The State is required to fill in funding gaps for public education, and its share of public school funding has gone up dramatically. In 1987 the State paid 40% of the bill, it now pays 60%.

Next came Arveschoug-Bird, a law passed by the State legislature in 1991. This law says that the General Fund (the GF from now on), can only go up by a max of 6% per year, based on what was actually spent in the prior year.

The GF is the money that pays for just about every public service in the State, including K-12 education, colleges and universities, judicial services, parole, probation and prisons, Medicaid, child welfare, at-risk youth programs and so on. In low tax collection years associated with slow economic times, when there are not enough taxes to fund the GF to the prior year's level plus 6%, the subsequent year's base is less than the allowed maximum growth. There is a built in ratchet down mechanism on spending that comes into play when the economy is slow. As you can guess, the growth in expenses doesn't slow down during these times, just the tax revenues needed to pay for them.

Along came TABOR in 1992, another citizen initiative that became an Amendment. While the 6% rule limits spending, this one is a revenue limit. It restricts the State from collecting more in tax revenues, tuition, fees, etc. than it did in the previous year plus an adjustment for population growth and inflation. If the State collects less than allowed, the next year's limit is based on the prior actual collections, not the calculated limit from the prior year. In years of slow population growth and low inflation, allowed budget increases will be small, even in good economic times. In years when collections are actually less than the prior year, such as during the recent recession, the subsequent year's budgets get smaller. In the last few years the State has experienced a 17% decline in tax revenues. When the economy rebounds, TABOR allows the budget to grow only at the limit of population growth and inflation, probably about 3% this coming year. There is no recovery mechanism, so services that are cut or limited cannot be restored without cutting something else. Thus this law too has a built in ratchet down mechanism, but on allowed revenues, not spending. Any monies collected over the limit must be returned to the taxpayers. Since the State can't know in advance how much it will collect in taxes, there have been times when the State overcollected, and refunds were issued. This first refund was in 1997, the



last was in 2001. TABOR also prevents the State from setting up a reserve fund that might be used as a cushion in periods of low tax collections.

Finally, in 2000 the voters passed Amendment 23. At the time our school system was slipping badly in funding, in part due to Gallagher and TABOR. 23 requires the State to fund K-12 education at the prior year's level plus inflation, plus 1% for 10 years in order to catch up. 23 also requires the State to increase GF spending on education by 5% each year at a minimum. Remembering that the State must make up funding gaps in K-12 education that local property taxes don't cover, and you start to get the big picture

Let's put it all together. Fully 2/3rds of the General Fund is mandated and nonnegotiable. 42% goes to K-12 education. 22% goes to Medicaid funding. The Medicaid caseload has gone up 65% while the budget has been cut \$100 million. We also lose matching Federal funds whenever we cut our state contribution. That leaves just 1/3 of the money with which to fund everything else in the GF, and virtually every item in the budget has been affected. To name a few, the State funding for the Dept of Public Health has been cut 60%, transportation 30%, higher education 20%. The mental health program in youth corrections, and the low income housing grants and loans programs, have been eliminated. The number of low-income children without Medicaid has nearly doubled in the last ten years (15% to 27%). The Maintenance Trust Fund, used for maintenance on existing capital investments, was raided. The entire \$258 million in the MTF was emptied into the GF to cover shortfalls.

Referendum C is a proposal to suspend TABOR for 5 years, and allows the State to keep all the taxes it collects for the next five years. It does not increase the tax rate. At the end of 5 years, TABOR resumes at a new revenue benchmark of the best collection year out of the preceding five years. It is estimated that, if the economy grows as expected, an additional 3.1 billion dollars will be collected over the five years. This would restore the budget to approximately 2001 levels. Approximately 30% of the additional money is earmarked for health care. The health care needs in our state far exceed the means, and this temporary measure will not solve the state health care crisis. It is, however, a welcome step in the right direction. These referenda alone will

not fix Colorado's overall budget woes either, but it's a start. Approximately 10% of the anticipated money from Ref C goes to fund Ref D, which is a bond measure allowing the State to float bonds worth about 1.6 billion dollars to cover roads and construction projects.

After careful consideration, the Arapahoe/Douglas/Elbert Medical Society (ADEMS) is supporting Referenda C/D. While we realize these measures are not the solution to all the problems facing health care, we also understand the need for a sound fiscal environment. A solid State budget that supports health and education is essential to the well being of our patients, and we are in support of legislation that will lead us in that direction.



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