

Looking Forward

Colorado's fiscal prospects after Ref C

December 2007

A joint research project of



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Looking Forward: Colorado's fiscal prospects after Ref C

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Looking Forward

Colorado's fiscal prospects after Ref C

Introduction

In November 2005, Colorado voters passed Referendum C, giving the state a five-year “time-out” from the revenue limits established by the Taxpayer’s Bill of Rights (TABOR). The current Colorado state budget (July 2007 through June 2008) is the third of five budgets to operate under that time-out, and the legislative Joint Budget Committee is working on the fourth. Many Coloradans are starting to ask what should happen next.

Where did Referendum C get us as a state? Where are we headed looking forward, and is that actually where we want to go?

We believe the best way forward is to first make sure we have good information so voters can make good decisions. The purpose of this report is to provide that information. *Looking Forward* projects state revenues and expenditures through 2013, a six-year period that includes the last three years of the Referendum C time-out and the first three years of the new Ref C revenue cap.

Specifically, this report attempts to answer the following questions:

- How much revenue will the state collect in each of the next six years with existing taxes?
- How much will the state need to spend in each of the next six years to maintain 2007 levels of service?¹
- Is there a gap between these projected revenues and projected expenditures? If so, how big is it?
- How do constitutional and statutory budgeting provisions affect the situation?

Our goal is to compile one reliable set of projections about future fiscal conditions as a common baseline from which to define challenges, inform public debate and guide decisions.

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Key observations

Our findings drive four key observations about where we are headed as a state:

1. **Colorado state services have only partially recovered from the economic downturn.** Referendum C has allowed the state to retain more than \$1 billion in revenues each year. Even so, most major state programs have not returned to the levels of service attained immediately prior to the 2001-03 downturn.
2. **Nevertheless, 2007 is probably as good as it gets.** There will be no further recovery of service levels under Referendum C. In fact, it will be a challenge for the state to maintain 2007 levels of service into the future, and we project there will not be enough left over to maintain the state’s roads, bridges and buildings in their current conditions.
3. **It is the Arveschoug-Bird formula that will mostly determine how revenues are allocated in the future.** This formula largely dictates how General Funds are allocated between the state’s operating budgets (e.g., Education, Medicaid, Corrections, etc.) and capital budgets (e.g., Transportation and Capital Construction), and it will continue to do so throughout the study period.

4. **Budgets for the major areas of state government are interrelated. Because all General Fund revenues are fully allocated, any further increases in state services can come only through new revenues or at the expense of service cuts elsewhere.** The departments of Education, Higher Education, Health Care Policy and Financing (largely for Medicaid), Human Services, Corrections and Transportation, which together account for more than 80 percent of total state spending,² all depend on state General Fund revenues for significant portions of their funding.

Summary of findings

Finding 1. Colorado's schools, colleges and universities, health care safety net, human service programs, prisons, transportation and building maintenance depend on General Fund revenues for much of their funding.

Finding 2. General Fund appropriations will need to grow by a compound average annual rate of 6.3 percent to maintain 2007 levels of service through 2013.


Finding 3. The 6 percent Arveschoug-Bird General Fund growth formula could force some cuts in the projected appropriations needed to maintain 2007 levels of service through the six-year study period. It will certainly not allow any further increases in services.

Finding 4. Assuming continued economic growth, state General Fund revenues are projected to grow by an average annual compound rate of 5.2 percent through 2013.

Finding 5. Projected revenues will not be sufficient to maintain the state's buildings, roads and bridges in their current condition, even with the increased dependence of General Fund revenues.

Finding 6. The new state revenue limit imposed by Referendum C, which takes effect in FY 2010-11, is not likely to limit spending during the study period.

Finding 7. Projected revenues will not be sufficient to accommodate new or expanded services.

 **More details online:** for more in-depth, agency-by-agency reviews of revenues and expenditures for the six-year study period, visit www.thebell.org and click on Looking Forward.

How Referendum C works

Referendum C, passed by voters in 2005, allows state services to recover from cuts made during the 2001-03 downturn or that might be made during future recessions. It does this by bypassing TABOR's "ratchet effect."

Voters passed the Taxpayer's Bill of Rights (TABOR) in 1992. Its "ratchet" permanently reduces state spending after economic downturns.¹ Briefly, the ratchet works like this: The revenue limit set by TABOR for each fiscal year is based on the prior year's revenue limit or on the actual revenues collected, whichever is lower.

Because state tax revenues actually fell in fiscal years 2001-02 and 2002-03, the TABOR limit fell with them. This "ratcheted down" the revenues the state could retain in the future. By 2004, when revenues started to rebound, the TABOR ratchet had pushed future state revenue limits down by more than \$1 billion per year.

The effect was to lock in recessionary spending levels. It's comparable to a reservoir that could not be refilled after severe drought, making the low-water mark from the drought the new high-water mark for the future.

Ref C bypasses this flaw in TABOR.

- It lets the state retain all revenues it collects for five years (FY 2005-06 through FY 2009-10), regardless of the TABOR limit. This "time-out" from TABOR reverses the ratchet effect resulting from the 2001-03 economic downturn and lets state services recover with the economy. As this study shows, the time-out has been only partially successful.
- For FY 2010-11 and beyond, Ref C lets the state government retain all revenues up to a new "excess state revenues cap." While still limiting spending growth to the sum of inflation plus population growth, this new limit will be based on the prior year's limit, "regardless of actual revenues collected." This eliminates future ratchets. When the new cap takes effect in FY 2010-11, it will be based on the highest annual revenue collected during the five-year time out.

Legislative Council's September 2007 forecast² projects the state will retain \$39 billion during the five-year time out of Ref C. Of this amount, \$6.1 billion, or 16 percent, is due to the passage of Ref C. The legislation authorizing Ref C directs the legislature to spend these additional revenues on health care, K-12 education, higher education, pension plans for firefighters and police officers, and transportation projects.

¹ For a full description of the ratchet effect and how it works, see *Ten Years of TABOR*, The Bell Policy Center, 2003.

² Colorado Legislative Council Staff, "Focus Colorado: Economic and Revenue Forecast," 2007-2012, Sept. 20, 2007.

Implications

Referendum C allowed the legislature to avoid additional cuts and restore some of the services it cut during the downturn early in the decade. But rather than restoring more services, Ref C's main effect in the future will only be to help maintain the levels of service achieved during the first two years of the time-out.

In other words, Referendum C stopped the bleeding and stabilized the patient, but could do little else.

The question is whether that is good enough. Looking forward, will 2007 levels of service meet the needs of a growing state in the 21st Century?

Answering that question requires more than projecting revenues and expenditures. It requires a serious, informed, broad statewide discussion about the kind of state we want Colorado to be.

We use 2007 as our baseline in this report because it represents the status quo in Colorado. It is where we currently are as a state, although it does not necessarily represent where we want to be. Whether compared to other states or to historical trends, current General Fund revenues in Colorado are quite

low. In 2005, the most recent year for which comparative data are available, Colorado state government ranked 44th of the 50 states in per capita spending, and 49th in spending as a percentage of total personal income.³

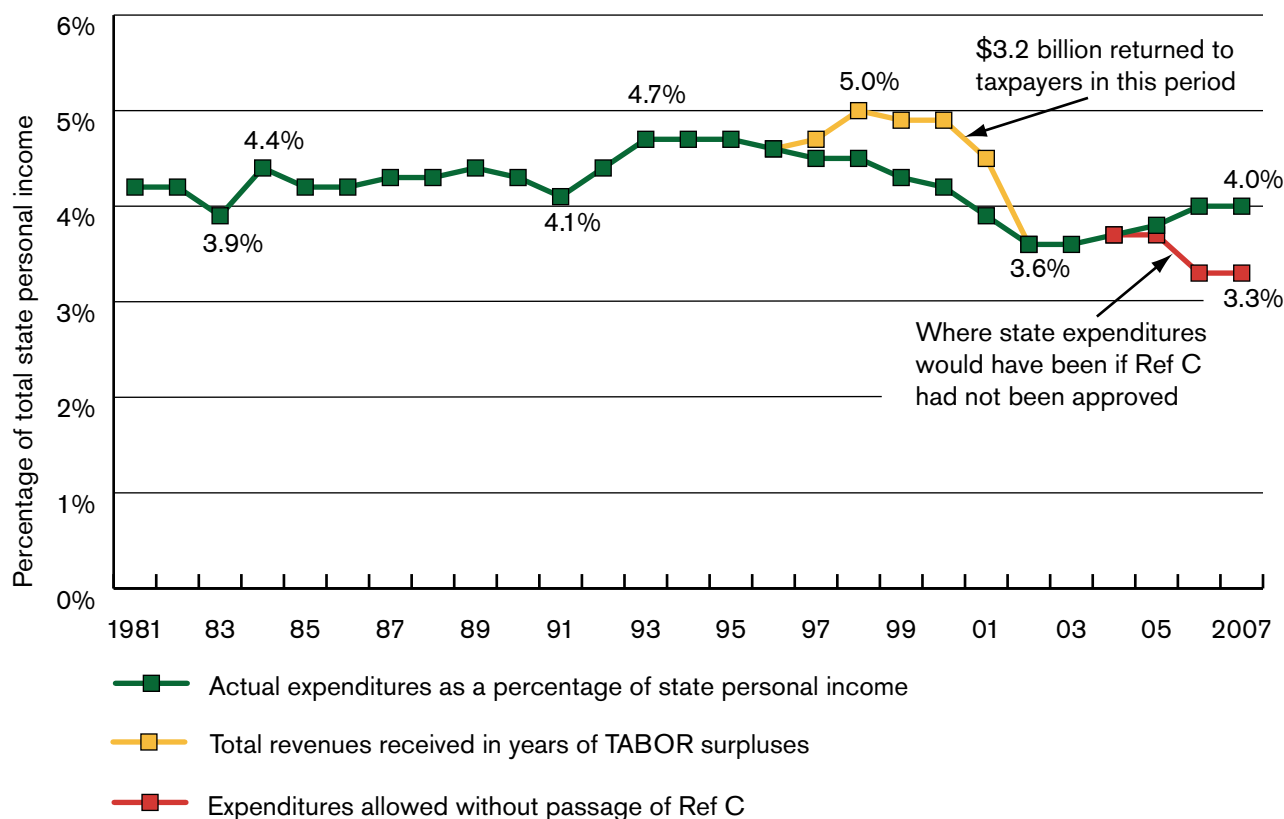
In fact, as Figure 1 shows, when measured against total personal income statewide, General Fund revenues in FY 2007-08 are 11 percent below the average of the two decades prior to the 2001-03 economic downturn.

From 1982 through 2001, General Fund revenues averaged 4.5 percent of total personal income. During the 2001-03 downturn, revenues dropped to a low of 3.6 percent of personal income, 20 percent below the average of the previous two decades. After voters approved Ref C in 2005, revenues recovered somewhat, to 4 percent of personal income in FY 2006-07. That's still more than 11 percent below the previous average.⁴

Many of Colorado's leaders point to the outcomes of state programs and suggest we should aspire for more.

- Many argue there will not be enough transportation funding to build and maintain the roads, bridges and transit systems we will need to compete economically.

Figure 1. State General Fund revenues and expenditures as a percentage of total state personal income, 1981 to 2007



- Some argue we still are far behind in funding our colleges and universities. At the same time, Gov. Ritter has set a goal of doubling the number of degrees and certificates awarded in the next decade.
- Some argue we lack the resources to meet state and federal standards in K-12 education, not to mention meeting the governor's challenge to cut our high school dropout rate in half.
- The Blue Ribbon Commission for Health Care Reform is studying five options for increasing access to affordable health care. Most would require significant new state spending.

These are important discussions about the critical public structures that underpin our prosperity. But the core questions are: How much would these changes cost? Where will we find the money to implement them?

It is clear from our findings that, at best, Colorado has only enough money to do what it already is doing. Without significant cuts to existing programs, increased revenues, changes in constitutional or statutory provisions, or a combination of all three, there can be no meaningful expansion of existing programs or services.

So where *are* we headed as a state? *Is* that where we want to go? This report answers the first question. With this information in hand, we can begin to answer the second.

How we got our numbers

Our goal was to take the current state General Fund budget and extend it six years into the future. Looking Forward estimates how much it will cost to keep pace with growth in the major forces that are driving the budgets in each area.

We estimated these numbers for FY 2007-08 through FY 2012-13. This time frame represents the last three years of the Ref C time-out and the first three years under the new excess state revenues cap. These estimates are intended to help inform the debate over where the future state budgets are heading.

We used data and information produced by the Joint Budget Committee, Legislative Council staff, state agencies and other reputable sources.

To estimate **future revenues**, we used the Legislative Council staff's September 2007 revenue projections through FY 2011-12, the last year of their projections. We used the trends in these estimates to project state revenues for FY 2012-13.

We also used this data to calculate the new **excess state revenues cap** established by Referendum C, and the Arveschoug-Bird 6 percent limit on General Fund appropriations.

To estimate **future appropriations** needed to maintain the 2007 levels of services budget, we analyzed the five agencies that historically receive 90 percent of General Fund appropriations and, including transportation, 81 percent of total appropriations. We identified the major factors that drive the budgets for each of these agencies, such as the number of students, Medicaid recipients or prisoners, and then gathered data to extend these trends into the future.

To do so, we assumed no changes in current policies and estimated the costs of meeting the demand for services based on projections of future growth. For most agencies, this means growth in the number of people using services. In some cases, it means the effects of inflation.

We assumed that the state will continue to provide services to those who are now receiving services, even though current law would allow the state to cut services to reduce spending. We did not, however, try to estimate the costs of meeting such needs as reducing patient backlogs, increasing provider payments to match market rates, or raising state funding to be comparable to average funding in other states.

To estimate **total state appropriations**, we assumed that the other 15 agencies that receive General Fund operating funds will continue to receive 10 percent of General Fund appropriations in the future.

Summary of findings

In this study, we focus on revenues to and appropriations from the state General Fund through 2013. We do not project revenues or appropriations for cash or federal funds.

Specifically, we project revenues to the General Fund under current taxes and tax rates, assuming continued moderate economic growth. And we estimate the level of appropriations from the General Fund that would be needed to maintain current 2007 levels of service over the study period.

More information about our methodology can be found in the box on the facing page or online at www.thebell.org in the appendices to this report.

Our projections about the future of the state General Fund lead to the following major findings.

Agency budgets analyzed in this report

- Agencies analyzed: 90 percent of General Fund appropriations

Corrections
Education (K-12 education)
Higher Education
Health Care Policy and Financing
Human Services

- Other agencies: 10 percent of General Fund appropriations

Agriculture
Governor's Office
Judicial
Labor and Employment
Law (Attorney General)
Legislature
Local Affairs
Military and Veterans Affairs
Natural Resources
Personnel and Administration
Public Health and Environment
Public Safety
Regulatory Agencies
Revenue
Treasury

- Other areas analyzed:

Capital Construction
Transportation

Finding 1.

Colorado's schools, colleges and universities, health care safety net, human service programs, prisons, transportation system, and building maintenance all depend on General Fund revenues for much of their funding.

Appropriations from the General Fund make up significant portions of the total operating budgets for the five major state departments:

- Corrections: 90 percent from the General Fund
- Education: 75 percent from the General Fund ⁵
- Health Care Policy and Financing: 41 percent from the General Fund
- Higher Education: 40 percent from the General Fund ⁶
- Human Services: 32 percent from the General Fund

Other major departmental and program budgets are increasingly dependent on direct appropriations and spillover from the General Fund due to the Arveschoug-Bird formula (*see Finding No. 3*).

The state capital construction budget is almost wholly dependent on General Fund revenues, and transfers of General Fund revenues to the Department of Transportation will equal at least 27 percent of the department's total appropriations in FY 2007-08.

Finding 2.

General Fund appropriations will need to grow by a compound average rate of 6.3 percent annually to maintain 2007 levels of service through 2013.

The compound average annual growth rates that we project will be needed to sustain 2007 levels of service in the major departments through 2013 range from more than 8.1 percent per year for the Department of Corrections down to 4.1 percent per year for the Department of Human Services. Taken together, these projections drive an overall compound average annual growth rate in appropriations from the General Fund of 6.3 percent through 2013.⁷

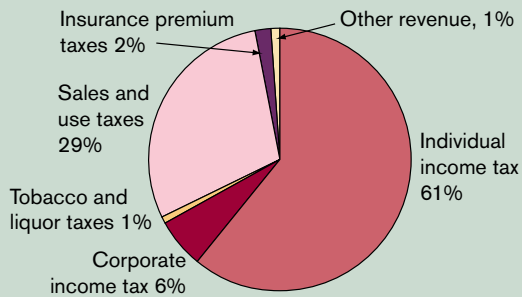
This overall projection is based on the compound average annual compound growth rates of the projections for the five major departments. It assumes that appropriations to the other 15 agencies that account for the remaining 10 percent of the General Fund budget in 2007 will grow at the same average rate.

How the state budget works

Colorado state government collects revenues from a variety of sources, and divides them into specific types of funds. The legislature appropriates money from these funds to pay for state government activities. State law places limits and restrictions on how the legislature can use the money from each type of fund.

State revenues

In FY 2007-08, the state expects to collect about \$7.7 billion in taxes for the General Fund. About 67 percent of this revenue comes from personal and corporate income taxes, 30 percent from sales, use and excise taxes, and 3 percent from other sources. The state also collects significant amounts of cash funds and federal funds.



State funds

General Fund: The General Fund is the state's unrestricted account that is used to fund state activities and support the primary functions of state government. It is the largest state fund, representing 42 percent of total state spending. Most legislative debate over the budget involves how to spend General Fund money.

General Fund Exempt: Some of the revenues flowing into the General Fund are exempt from TABOR.

When voters approved Amendment 35 in 2004, increasing the tobacco tax to fund health care, they exempted the new revenues from TABOR. About 3 percent of the Amendment 35 tobacco taxes are deposited into the General Fund and counted as General Fund Exempt.

When voters approved Ref C in 2005, they authorized the state to retain and spend revenues over the limit set by TABOR. These revenues are deposited in the General Fund Exempt account.

Cash Funds: Cash Funds are collected for a specific purpose through taxes, fees, or charges. They are used to support a specific function of state government. Examples of cash funds are the gasoline tax, unemployment insurance taxes and park entrance fees.

Cash Funds Exempt: Certain Cash Funds are exempt from TABOR, such as money collected through an enterprise as defined by TABOR, damage awards made to the state, or funds raised from the sale of property.

Examples of enterprises include the State Fair, state colleges and universities, and the Division of Wildlife.

The rest of Amendment 35 tobacco taxes are deposited into four funds, with most going to the Health Care Expansion Fund. These funds are counted as Cash Funds Exempt. As a result, most of the recent increases in funding for health care have come from Cash Funds Exempt instead of the General Fund.

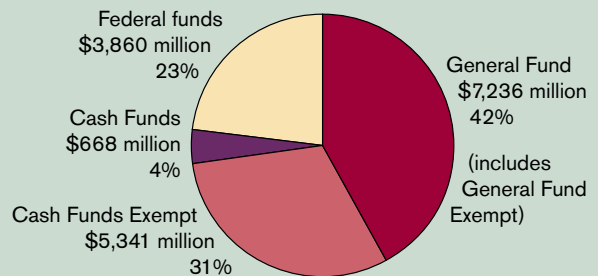
Federal funds

The federal government provides funds for a variety of state programs, including about half the cost of the state's Medicaid program and 40 percent of transportation funds.

State appropriations

The legislature appropriates General Funds, Cash Funds, Cash Funds Exempt, and certain federal funds to finance the operations of state government.

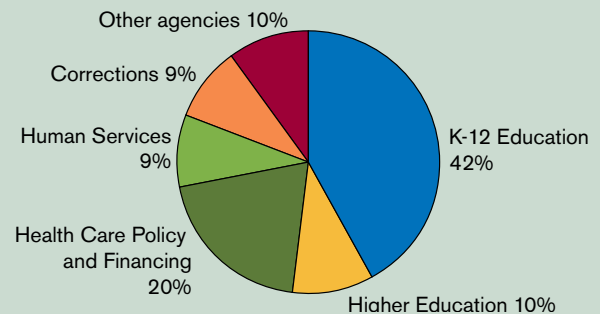
In FY 2007-08, the state expects to appropriate funds as shown in this chart:



Some agencies rely almost entirely on the General Fund, such as the Department of Corrections. Many receive a mixture of funds, such as the Department of Higher Education, which receives General Funds and collects tuition and fees from students. Others receive almost no General Fund and are funded almost exclusively through Cash Fund user fees, such as the Department of Regulatory Agencies.

The Department of Transportation is unique. It relies primarily on the state gasoline tax, federal funds and other fees. It does not receive General Fund appropriations as part of the state's operating budget, but some General Fund revenues are transferred to transportation when certain budget conditions are met.

FY 2007-08 General Fund appropriations



The department-level calculations that drive our overall projections are detailed in the online appendices to this report and summarized in Table 1 (page 8) and Figures 2 and 3. Table 1 lists the major growth factors for each of the five main agencies. Figure 2 shows the annual percentage growth in General Funds that would be needed in each major agency to maintain 2007 levels of service. Figure 3 (page 9) shows what this means in total dollars.

It's important to note that these projections are based largely on conservative assumptions. For example, we assume throughout that programs that get funding from the federal government will maintain their current share. But if, for example, the federal commitment to Medicaid decreases, the state would need to increase its commitment beyond what we have projected to maintain 2007 levels of service.

A similar assumption is made for the federal commitment to transportation spending, discussed in Finding 5 (page 12).

However, we based our K-12 appropriations on a projected change in the relationship between the state and local share of the costs of K-12 education. After declining slightly, the portion of K-12 education costs paid for by the state is projected to increase over the study period.

The Joint Budget Committee (JBC) staff projects the state's share of these costs will decline from 63.9 percent in FY 2006-07 to 62.6 percent in FY 2007-08. The reduction is due to the stabilization of local mill levies, which the legislature passed as part of the 2007 School Finance Act (SB 07-199). However, through FY 2012-13, the JBC staff projects the state share of K-12 costs will increase to 65.7 percent, because assessed property values in local school districts are not expected to grow as much as education expenditures.⁸

The increase in the portion of K-12 education paid for by the state will cause state expenditures to increase. Because the state portion varies each year, the growth rate in K-12 education expenditures will vary as well, as shown in Figure 2.

Figure 2. Projected annual rate of growth in state appropriations by General Fund budget area

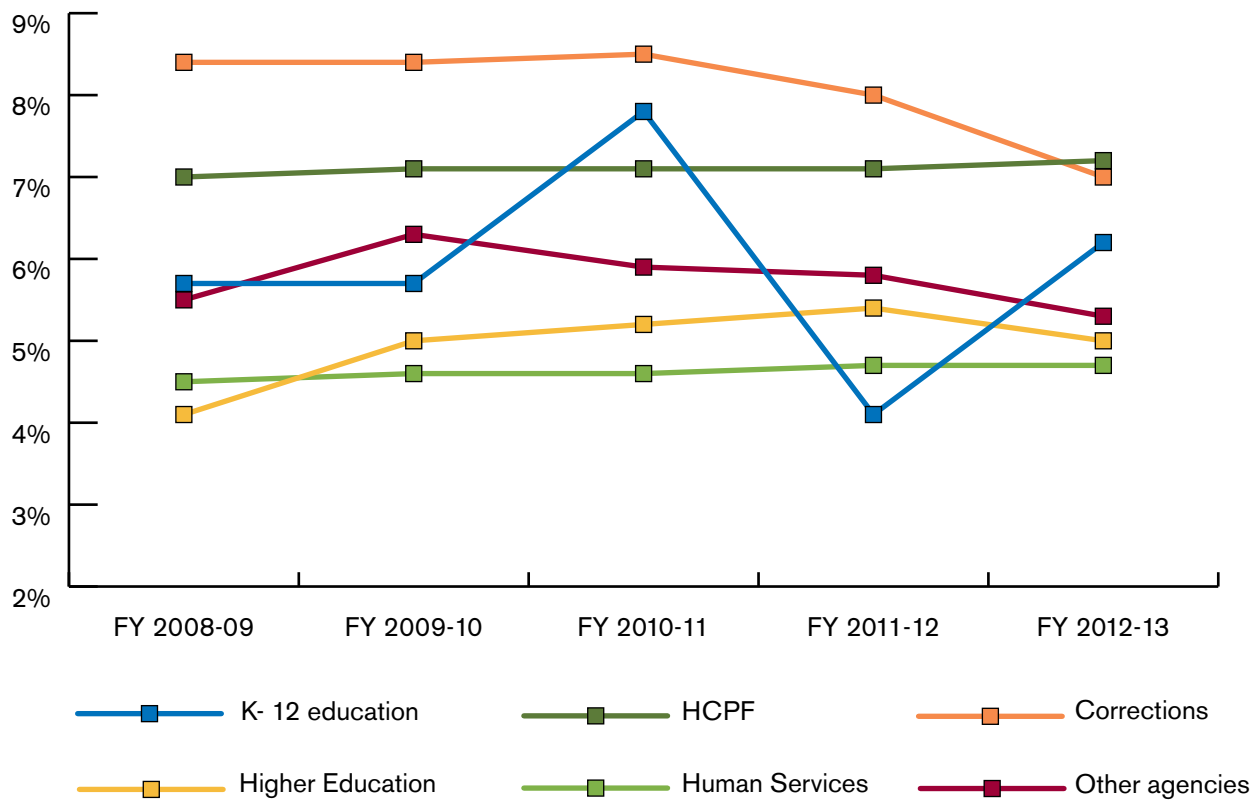
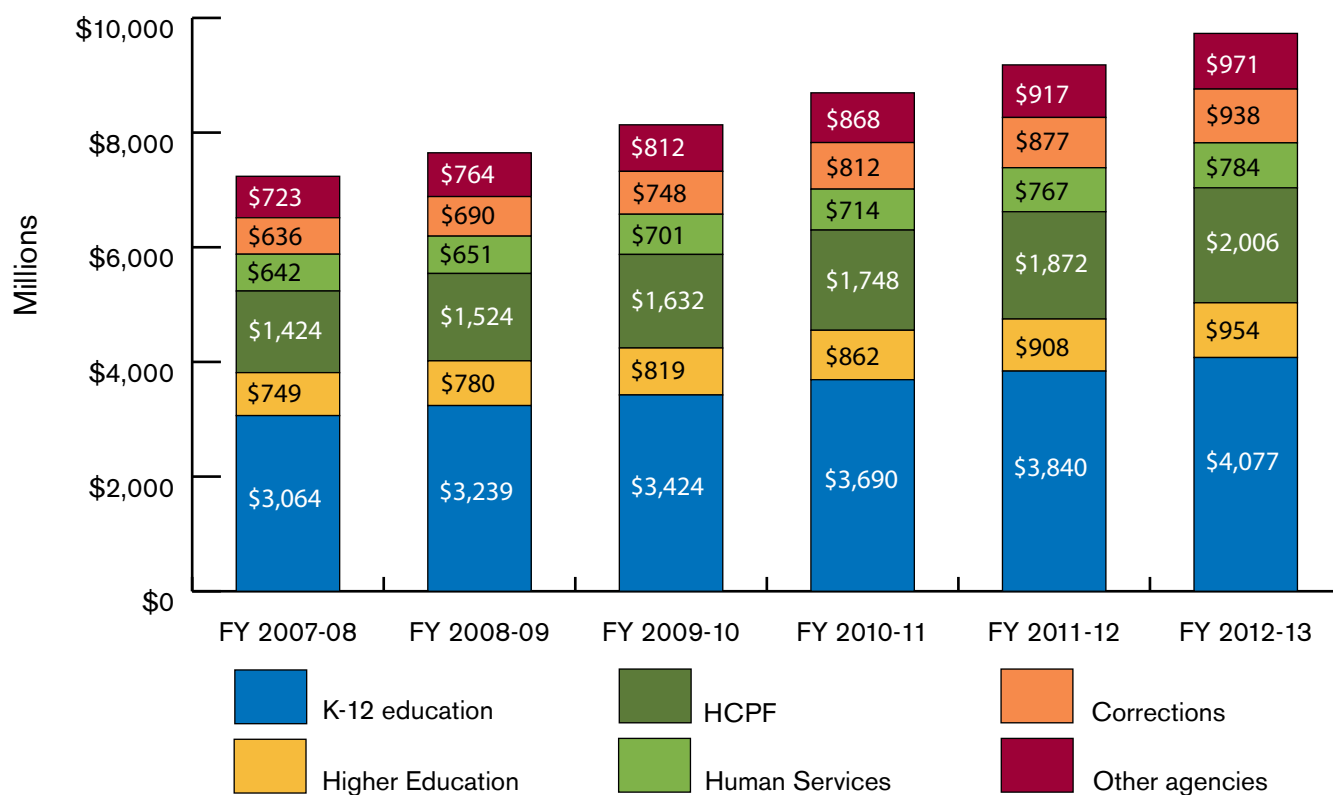


Table 1. Factors driving growth in General Fund appropriations

Agency	Budget drivers	Growth rate	Factors driving agency operations FY 2007-08	Factors driving agency operations FY 2012-13
Corrections	<ul style="list-style-type: none"> • Adult prison population 	<p>Adult prison population is projected to grow on average 5.7 percent annually from FY 2007-08 through FY 2012-13.</p>	23,752 adult prisoners	32,140 adult prisoners
Education	<ul style="list-style-type: none"> • Student population • Inflation • State share of K-12 education costs 	<p>Student population is projected to grow on average 1.66 percent annually from FY 2007-08 through FY 2012-13.</p> <p>Inflation is projected to average 3.3 percent annually from FY 2007-08 through FY 2012-13.</p> <p>Amendment 23 requires education funding to increase by inflation plus 1 percent through FY 2010-11.</p> <p>The state share of K-12 education costs are projected to increase from 62.6 percent in FY 2007-08 to 65.7 percent in FY 2012-13.</p>	<p>767,413 K-12 students</p> <p>62.6 percent of K-12 costs paid for by the state.</p>	<p>833,324 K-12 students</p> <p>65.7 percent of K-12 costs paid for by the state.</p>
Higher Education	<ul style="list-style-type: none"> • Full-time equivalent students eligible for the College Opportunity Fund (COF) • Inflation 	<p>Full-time equivalent COF-eligible student enrollment is projected to grow by 1.2 percent in FY 2008-09 and 1.9 percent from FY 2009-10 through FY 2012-13.</p> <p>Inflation is projected to average 3.3 percent annually from FY 2007-08 through FY 2012-13.</p>	122,847 COF-eligible full time equivalent students	134,042 COF-eligible full time equivalent students
Health Care Policy and Financing	<ul style="list-style-type: none"> • Enrollment in health programs, based on historic averages • Health care costs, based on historic averages 	<p>The 10-year average annual growth rate in the number of people who received traditional Medicaid services from FY 1997-98 through FY 2007-08 was 4.56 percent.</p>	372,549 people receiving traditional Medicaid services	465,528 people receiving traditional Medicaid services
Human Services	<ul style="list-style-type: none"> • Enrollment in human services programs, based on historic averages • Human service costs, based on historic averages 	<p>The 10-year average annual growth rate in Division of Youth Corrections (DYC) appropriations from FY 1997-98 through FY 2007-08 was 5.96 percent.</p> <p>The 10-year average annual growth rate in child welfare cases from FY 1997-98 through FY 2007-08 was 5.08 percent.</p>	<p>1,494 average daily population of juveniles committed to DYC</p> <p>68,724 child welfare cases</p>	<p>1,651 average daily population of juveniles committed to DYC</p> <p>79,337 child welfare cases</p>

Figure 3. How much will it cost to sustain 2007 levels of service through 2013?



Finding 3.

The 6 percent Arveschoug-Bird General Fund growth formula could force some cuts in the projected appropriations needed to maintain 2007 levels of service through the six-year study period. It will certainly not allow any further increase in services.

Arveschoug-Bird, passed by the legislature in 1991, caps the annual growth in appropriations from the General Fund (other than for capital construction) to no more than 6 percent annually, regardless of revenues. But Arveschoug-Bird does not actually limit state spending, because revenues outside the 6 percent spending limit are fully allocated to other areas under current law. In essence, the Arveschoug-Bird “limit” is not a limit at all – it is a budget allocation formula.

All revenues from Referendum C are deposited in the “General Fund Exempt” account and distributed according to its provisions. However, because of Arveschoug-Bird, the higher-than-projected revenues in the first three years of Ref C displaced other funds, which have spilled over the 6 percent cap and flowed to non-operating expenses, including transportation. This is likely to continue, as the Arveschoug-Bird formula allows only modest growth in operating expenses.

Because state and federal gasoline tax revenues have not kept pace with the growing use of the state’s roads and bridges (See also Finding 5), the transportation budget has become increasingly dependent on this spillover of General Fund revenues created by the Arveschoug-Bird formula. So while a change to the formula could increase funding for General Fund departments such as Education, Higher Education or Human Services, it would do so only at the expense of transportation and capital construction.

Interestingly, because Arveschoug-Bird is an annual growth formula that is always based on the previous year’s General Fund appropriations, it permanently ratchets down services beginning in those years when the full 6 percent is not appropriated. This is similar to the mechanism that causes the ratchet effect of TABOR, which is explained in the Bell’s 2003 publication, *Ten Years of TABOR*.

Because of a decrease in revenue due to an economic downturn and a reduction in tax rates, appropriations did not grow by the full 6 percent in 2002 or 2003. In fact, in 2002 appropriations actually shrank.⁹ As a result, we estimate the Arveschoug-Bird limit in 2007 is \$982 million lower than it would have been had appropriations actually grown by the full 6 percent in 2002 and 2003.

Figure 4. Projected General Fund revenues, appropriations needed to maintain 2007 levels of service, and the 6 percent Arveschoug-Bird limit

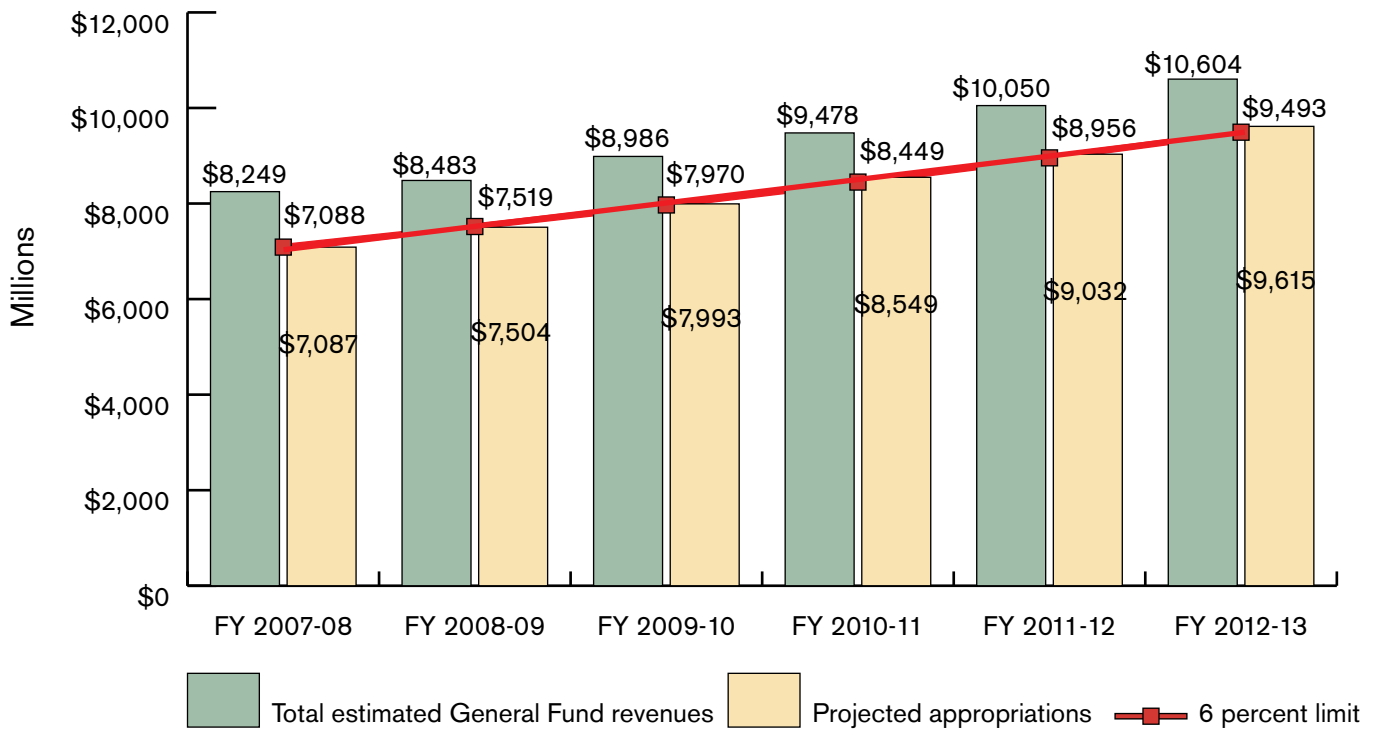


Figure 4 shows that our projection of appropriations needed to maintain 2007 service levels into the future could exceed the 6 percent Arveschoug-Bird limit (red line) by \$23 million in FY 2009-10, growing to \$122 million in FY 2012-13. This means the legislature might have to cut future appropriations below the amount we project is needed to maintain 2007 service levels in order to meet the 6 percent requirement.

Finding 4.

Assuming continued economic growth, state General Fund revenues are projected to grow by a compound average annual rate of 5.2 percent through 2013.

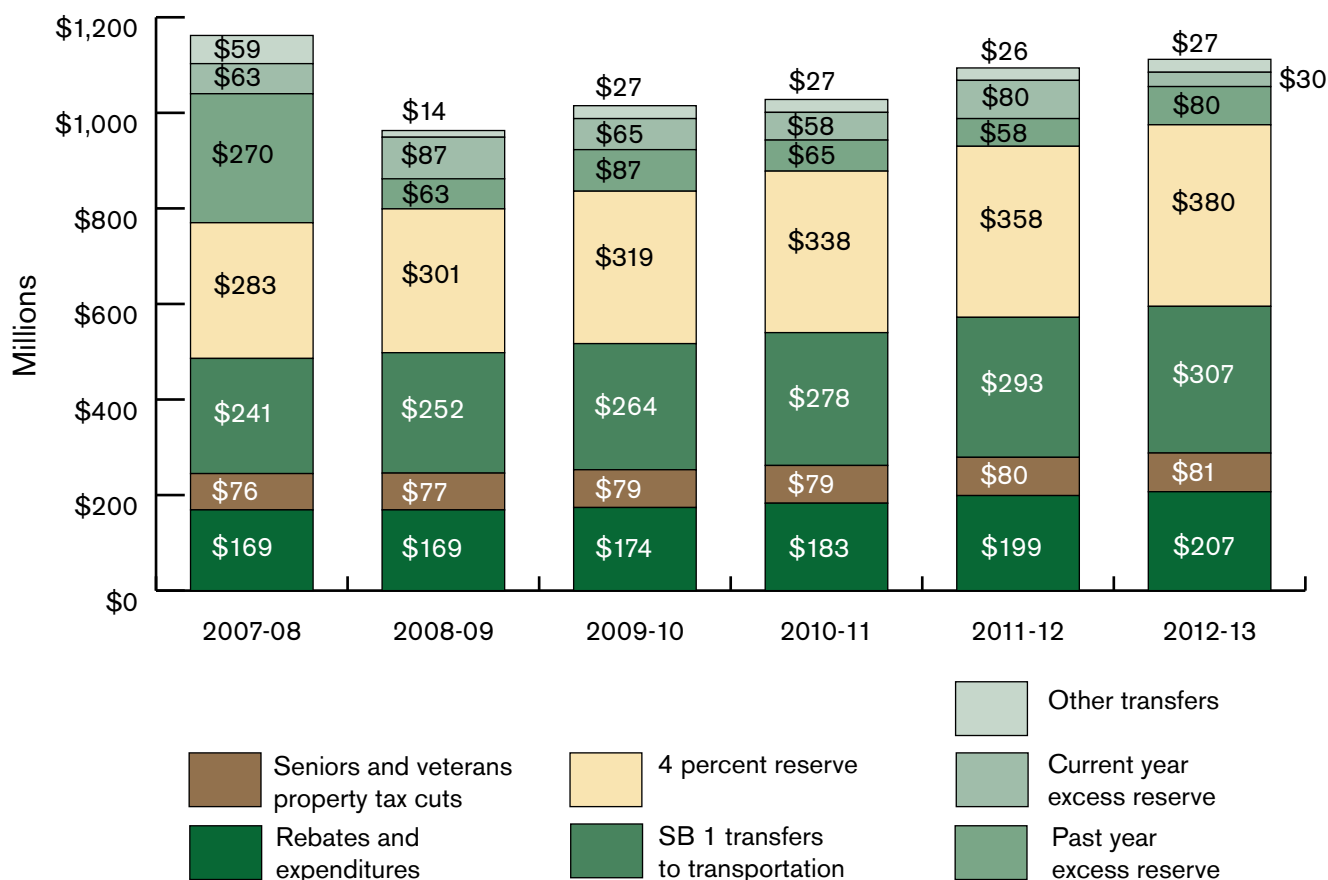
In FY 2007-08, the state will have approximately \$8.25 billion in revenues for the General Fund. The personal income tax and the state sales tax are responsible for more than 80 percent of these funds, with the corporate income tax and a variety of excise and other taxes providing the rest. Of the \$8.25 billion, nearly \$1.1 billion are “General Fund Exempt,” meaning they can be retained and spent by the state only because of the passage of Referendum C.

Using estimates from the Legislative Council through FY 2011-12, and estimating one additional year of revenues beyond that, we project that General Fund revenues will increase to \$10.6 billion in FY 2012-13. This constitutes a compound average annual growth rate of 5.2 percent. That is lower than the 6.3 percent growth in appropriations that we project will be needed to sustain 2007 levels of service.

Still, because some of the appropriations outside the Arveschoug-Bird limit are likely to be reduced first, this level of growth should provide enough revenues to sustain 2007 service levels for the five major departments and other program budgets traditionally supported by the General Fund, at least through 2013.

However, if these trends continue over the long term, spill-over funding for transportation and capital construction from above the Arveschoug-Bird line would eventually disappear. At that point, 2007 levels of service in the other major programs could no longer be maintained. Service cuts would occur earlier if the economy grows more slowly than these projections assume.

Figure 5. How General Fund revenues outside the 6 percent Arveschoug-Bird limit will be spent, based on current statutes (in millions)



Details on General Fund expenditures that fall outside the 6 percent limit

- Rebates and expenditures
 - Transfers from the state to local governments to cover the value of local sales taxes not levied on cigarette sales
 - Appropriations to the Old Age Pension fund
 - Tax credits to offset heating costs and property taxes for low-income seniors
 - Appropriations to the firefighters and police pension accounts
 - Treasurer’s loans to school districts
- Tax credits to offset residential property taxes for senior citizens (regardless of income) were established by voter approval of Referendum A in 2000, and for disabled veterans under passage of Referendum E in 2006.

- Senate Bill 1 transfers to transportation: specifically, up to 10.355 percent of sales tax revenues in the General Fund are transferred to the Highway Users Tax Fund.
- The 4 percent reserve is the amount the legislature is required by law to set aside each year to cushion state spending against a downturn in revenues.
- Past year excess reserves are the amounts carried over from the previous fiscal year, counted as General Fund revenues and transferred to transportation and capital construction. These are also referred to as HB 1310 funds, for the law that shifts them to transportation and capital construction. (See discussion in Finding 5.)
- Current year excess reserves are the amounts projected for the current year that will be carried over to the next fiscal year’s budget.
- Other transfers include funds to capital construction and sales taxes to the Older Coloradans Fund.

Finding 5.

Projected revenues will not be sufficient, even with the increased dependence on General Fund revenues, to maintaining the state's buildings, roads and bridges in their current condition.

On top of the operating budgets discussed in previous sections, the state also depends on the General Fund to help support its capital budgets to build and maintain roads and bridges, college classrooms, state office buildings and prisons. But even with continued General Fund contributions, capital budgets will not be sufficient to maintain current conditions, let alone accommodate any new construction.

Transportation

Historically, the state has funded transportation primarily through the gasoline tax, which is based on a set amount per gallon of fuel. But as vehicles have become more fuel-efficient and the costs of construction have risen faster than consumer inflation, this tax has not produced enough revenue to keep pace with the cost of maintaining and expanding the state's transportation system.

Prior to the passage of TABOR in 1992, the legislature would raise the gasoline tax every few years to keep pace. TABOR shifted that authority away from the legislature to the voters. Since then, the gasoline tax has remained at the level set in 1991: 22 cents per gallon for gasoline and 20.5 cents per gallon for diesel. The legislature has committed General Fund revenues to help close the gap. Yet even with these additional funds, there is not nearly enough money to meet the projected costs of maintaining the current transportation system, let alone expanding it to meet the needs of a growing state.

Specifically, Senate Bill 1, passed in 1997, commits a portion of state sales and use tax revenues to the Highway Users Tax Fund (HUTF) in years when General Fund revenues exceed the 6 percent Arveschoug-Bird limit. As Figure 5 (*page 11*) indicates, these Senate Bill 1 funds account for a significant portion of the revenues we project will spill over the 6 percent limit during the study period.

In 2002, faced with a continued funding gap for the 20-year transportation plan, the legislature passed HB 1310. It transfers to the Highway Users Tax Fund two-thirds of the General Fund excess reserve that is available at the end of a budget year. The other one-third of the excess reserve is used for projects to build, repair and maintain state buildings, as explained in the Capital Construction section.

Under current projections, which assume no economic downturn, SB 1 and HB 1310 together will add \$280 million to \$360 million per year to state transportation funding through 2013. Added to the estimated \$900 million per year from other sources (\$420 million from traditional sources such as the state gasoline tax, \$380 million in federal funds, and \$103 million from other sources, such as interest on bond proceeds),¹⁰ total annual appropriations for transportation reach approximately \$1.2 billion to \$1.3 billion (in 2008 dollars).

However, the 2030 Statewide Transportation Plan estimates that just to maintain the state's existing roads and bridges in their current condition — a mix of 60 percent “good” and 40 percent “poor” — will require \$2.6 billion a year in current 2008 dollars over the next 25 years. That's \$1.3 billion more than will be available in good economic years, and almost \$1.7 billion more than will be available if an economic downturn eliminates any spill-over of General Fund revenues.

Capital Construction

There is no consistent, reliable source of revenues for the Capital Construction Fund. When the money is available, the state has transferred one-third of the General Fund excess reserve to capital construction under HB 1310. As mentioned above, the General Fund excess reserve is what is left over after:

1. Operating expenses are funded up to the 6 percent Arveschoug-Bird limit.
2. The 4 percent statutory reserve is funded.
3. Transfers are made to Transportation under SB 1.

Capital construction revenues are the last dollars in the door in good years and the first to disappear in bad years, placing repairs and maintenance of state buildings at the back of the General Fund line.

In 2006, state agencies estimated a need for \$683 million in capital projects in FY 2008-09 and a long-term need of \$2.7 billion through FY 2011-12.¹¹ Because we cannot predict whether and when the legislature will approve a new facility, for purposes of this report we focus only on what it will cost to maintain existing facilities. To the extent the state needs to acquire or construct new facilities, our estimates will be low.

According to the Colorado Director of State Buildings, industry standards dictate an annual investment of 3 to 4 percent of the replacement value of total building inventory to maintain current conditions. The replacement value of state buildings is estimated at \$6.77 billion, so a 3 percent maintenance investment would cost \$203 million a year to maintain current conditions.

In five of the last six fiscal years, the state appropriated less than 1 percent of replacement value for capital maintenance. In FY 2006-07, it appropriated 2.4 percent. If appropriations continue to fall below the industry standard, the condition of state buildings and facilities will deteriorate.

Finding 6.

The new state revenue limit imposed by Referendum C, which takes effect in FY 2010-11, is not likely to limit spending during the study period.

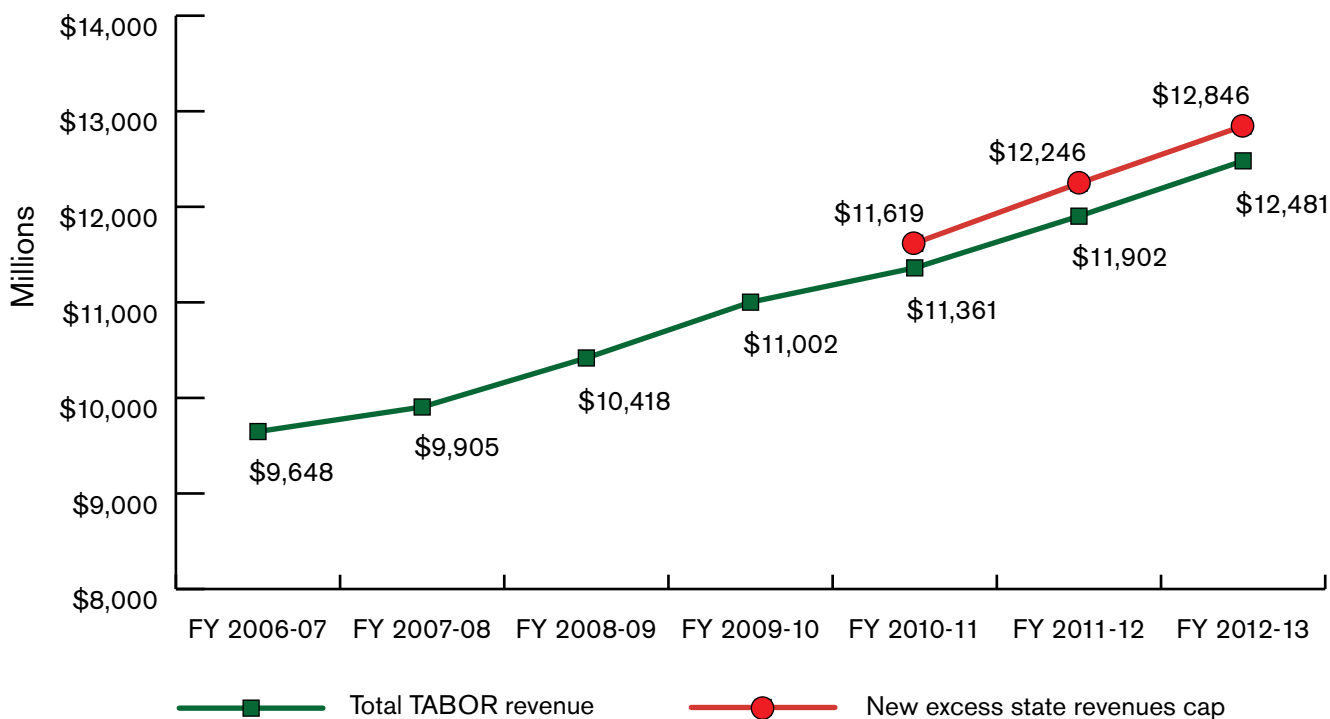
Referendum C imposes a new state revenue limit beginning in FY 2010-11. This new limit, known as the “excess state revenues cap,” will use as its base the year during the TABOR time-out when revenues were highest. Based on current projections, that new base year should be FY 2009-10, the last year of the time-out. From then on, the limit will be determined by adding cumulative growth in population plus cumulative growth in consumer price inflation from that base year. (See sidebar, “How Referendum C works,” page 2.)

Projections from the Legislative Council and the Governor’s Office of Planning and Budgeting differ slightly, but neither shows the state exceeding the new excess state revenues cap within its first few years of taking effect.

However, revenues are projected to be close to the new limit, so even minor variations in the rate of population growth, inflation or revenue growth could result in revenues exceeding the cap earlier than we project.

We also know from previous analysis that in most years, the new limit (reached by adding growth in population plus inflation) will grow more slowly than the overall economy. Over time, we can expect the excess revenues cap to grow more slowly than state revenues, which largely are tied to overall economic activity.¹² As a result, the amount by which revenues exceed the limit will increase over time, making the new excess state revenues cap an increasingly important factor in the future.

Figure 6. A comparison of estimated TABOR revenues and the new excess state revenues cap projects there will be no taxpayer rebates within the six-year study period



Finding 7.

Projected revenues will not be sufficient to accommodate new or expanded services.

Since the passage of Referendum C in 2005, a variety of official task forces and unofficial coalitions have formed to discuss specific state services and issue areas, including whether additional funding will be needed to achieve the desired results. However, our projections show that, at best, the state will barely be able to sustain services at 2007 levels for the remainder of the six-year study period. In fact, the Arveschoug-Bird limit may force some cuts in our projected appropriations needed to maintain these service levels in fiscal years 2008-09 through 2012-13.

Given current statutory and constitutional restrictions, Colorado can significantly increase spending only if it can generate additional revenues or cut other services. While important, cost-saving programs alone, such as the governor's initiative aimed at lowering prison recidivism or the Government Efficiency and Management (GEM) performance review, will not achieve the magnitude of savings needed to offset the increased need.

Efforts to evaluate funding needs, new funding mechanisms and options to restructure state programs include:

- **Transportation:** Current revenues will not be sufficient to maintain Colorado's roads and bridges in their current condition or to expand the system to keep pace with growth. The Department of Transportation estimates the state needs up to \$3.7 billion each year to maintain the system and accommodate growth, \$2.6 billion more than its current annual budget of approximately \$1.1 billion. The Blue Ribbon Transportation Finance and Implementation Panel, established by Gov Ritter, has been studying the state's transportation needs and has issued recommendations to increase funding options.¹³
- **Health Care:** Current revenues are likely to be sufficient to sustain 2007 levels of service, including Medicaid and other health programs in the Department of Health Care Policy and Financing. But at 2007 levels of service, nearly 800,000 Coloradans lack health insurance, including 150,000 children.¹⁴ The Blue Ribbon Commission on Health Care Reform, formed by the legislature in 2006, is evaluating health care reform models to expand coverage, "especially for the underinsured and uninsured, and to lower health care costs for Colorado residents." The commission identified five reform options for in-depth evaluation, and is to report its findings to legislators in January 2008. Each proposal would entail a significant restructuring of state health programs and funding streams. According to an independent actuarial review, the fiscal impact of these options would vary widely, but could range from \$389 million to well over \$1 billion a year.¹⁵
- **Higher Education:** The state's colleges and universities suffered disproportionately large cuts during the 2001-03 economic downturn compared to other state agencies. Even with Referendum C starting in 2005, and without considering subsequent inflation and enrollment growth, funding for the Department of Higher Education is still below where it was in 2002. As with all other General Fund programs, our analysis suggests projected revenues will not allow services to recover beyond their 2007 level. Compared to a representative group of peer institutions in other states, Colorado's colleges and universities as a whole receive 64 percent of average funding, according to an independent study done for the Colorado Commission on Higher Education. Providing Colorado institutions with the same level of support as the average of these peers would cost an additional \$832 million in total funding each year.¹⁶
- **K-12 Education:** State funding for K-12 education did not suffer the magnitude of cuts that other programs did during the downturn, in large part due to the funding requirements of Amendment 23. Still, Colorado lags behind other states in education funding and, more importantly, in critical achievement outcomes. Gov. Ritter wants Colorado to cut the dropout rate in half in a decade, and he established the P-20 Education Coordinating Council to look at ways to better structure our education system to meet the needs of the new century. Among other challenges, the federal No Child Left Behind mandate that students in all states achieve 100 percent proficiency by 2013-14 is likely to require all states to focus much more on achievement gap issues and low-performing schools in the next few years. An analysis by the Colorado School Finance Project projects that to adequately fund Colorado public schools, not including facilities, will require an additional \$2.9 billion annually.¹⁷
- **Other agencies:** Colorado also lags behind other states in funding many smaller but equally important programs, such as state courts, environmental regulation, services for the developmentally disabled, public safety, and services for veterans. Compounding the problem, federal funding for Medicaid, human services and transportation are likely to slow in the coming years, requiring state government to restructure programs or backfill with its own resources.

In summary, the Looking Forward research tells us:

- Our major state government services all depend on the General Fund for much of their funding.
- General Fund appropriations will need to grow by a 6.3 percent compound average annual rate to maintain 2007 levels of service through 2013.
- The 6 percent Arveschoug-Bird General Fund growth formula may force some cuts in our projected appropriations needed to maintain 2007 levels of service in FY 2009-10 through FY 2012-13.
- Assuming continued growth in the economy, General Fund revenues will grow by a compound average annual rate of 5.2 percent through 2013.
- Projected revenues will not be enough to maintain state buildings, roads and bridges in their current condition.
- The new state revenue limit imposed by Referendum C, which takes effect in FY 2010-11, is not likely to limit spending during the study period.
- Projected revenues will not be sufficient to accommodate new or expanded services.

In other words, 2007 is as good as it gets.

The question for all Colorado is whether that is good enough.

The road to 2007

A quarter century of constitutional amendments, legislative acts and economic ups and downs

To understand how Colorado finds itself in its current fiscal condition, it is helpful to look back at some critical decisions made by legislators and voters over the last 25 years, and at some of the economic and political factors that drove those decisions.

In **1982**, near the end of a period of strong economic growth, voters passed the **Gallagher Amendment** to shield homeowners from significant property tax increases due to rapidly rising home values. The amendment ensures the overall share of statewide property tax revenues paid by homeowners remains at roughly 45 percent of the total, with commercial property owners paying the other 55 percent.

Since Gallagher passed, the total value of residential property in Colorado has grown three times faster than the total value of commercial property. To maintain the 45-55 share split in overall revenues, the assessment rate for residential properties has been cut repeatedly while the commercial rate has remained the same.¹⁸

In **1991**, the legislature passed **Arveschoug-Bird**, a statutory 6 percent cap on annual growth in General Fund appropriations to operating budgets. This provision, named for its legislative sponsors, is usually referred to as a spending limit. It is better understood as a spending formula because it directs where money can be spent rather than limiting how much can be spent. General Fund revenues collected above the 6 percent are still spent by the state – just not for operating expenses, such as educating students or paying for medical care. Currently, revenues that top the 6 percent limit are largely used to fund transportation and capital construction needs.

In **1992**, voters approved the **Taxpayer's Bill of Rights**, or **TABOR**, a constitutional amendment with wide-ranging implications for all levels of government in Colorado. TABOR requires voter approval of tax increases. It also limits revenues, which at the state level cannot increase from one year to the next by more than the increase in population plus inflation. Over time, these limits have been shown to force cuts in government services,¹⁹ and they can only be overridden by a vote of the people. Another of TABOR's provisions bars the weakening of spending limits without a vote of the people – a provision that many currently interpret to mean that Arveschoug-Bird, originally passed by the legislature, now can only be changed by popular vote.

Among the most far-reaching effects of TABOR is that it shifts the most important fiscal decisions (taxes and spending) away from elected representatives to the voters. For the most part, state fiscal policy is no longer made by 100 elected legislators and the governor – it is made by more than 2.5 million registered voters.

In **1997**, the legislature passed **Senate Bill 1** to allow General Fund revenue to be used for transportation projects once the 6 percent Arveschoug-Bird cap has been reached. For several decades, revenues from the gasoline tax and other sources traditionally used for transportation have not kept pace with need. This is largely due to increased fuel-efficiency of automobiles – motorists pay the same amount of taxes per gallon of gasoline, but drive further on that gallon. Once the Arveschoug-Bird cap is reached, SB 1 allows a little over 10 percent of state sales and use tax revenues to move to the Highway Users Tax Fund, an amount meant to represent the share of those taxes attributable to purchases of vehicles and related items such as tires and auto parts.

During the **1990s**, Colorado and the rest of the nation experienced **unusually strong economic growth**. Between 1991 and 2001, Colorado was the third fastest growing state as measured by gross state product and by employment growth. State revenues grew with the economy, far exceeding the state's TABOR limit. Between 1997 and 2001, TABOR required the state to rebate a total of \$3.2 billion in revenues that came in above the TABOR limit.

At the end of the decade, the legislature cut sales and income taxes by about \$1 billion. The goal, based on an assumption of continued strong economic growth, was to reduce the state tax base to stop collecting revenues that would just have to be returned anyway.

In **2000**, voters passed **Amendment 23**, a constitutional amendment that requires per-pupil funding for K-12 education to increase by inflation plus 1 percent each year through FY 2010-11. The 1 percent kicker expires in FY 2011-12, but per-pupil K-12 funding must still increase each year by inflation thereafter. The purpose of Amendment 23 was to help Colorado's funding for public schools catch up to the national average.

Following the Sept. 11 terrorist attacks and the stock market bust in **2001-02**, the nation (and Colorado) experienced a significant **economic downturn**. This, combined with the effects of the tax cuts enacted by the legislature, resulted in an unprecedented drop in revenues to the state. Because the Colorado constitution requires a balanced budget, this in turn forced the state legislature to slash state services.

Meanwhile, faced with a continued gap in transportation funding, in **2002** the legislature passed **HB 1310** to transfer two-thirds of the General Fund excess reserve to the Highway Users Tax Fund. The other third is set aside to build, repair and maintain state buildings. The General Fund excess reserve is what is left over after overall revenues satisfy all other obligations, including General Fund operating budgets, the 4 percent statutory reserve, and transfers to Transportation under SB 1.

Interactions among these and other constitutional and statutory provisions have often produced consequences beyond those intended.

The interaction of the Gallagher and TABOR amendments, for example, caused a major decline in the local tax base for public schools, requiring significant backfill from the state. From 1989 to 2007, the local share of education funding has dropped from 57 percent to 37 percent – a historic shift away from local funding to state funding for public schools.²⁰ In part to counter this, in 2006 the legislature voted to remove a provision of the 1994 School Finance Act mandating that local school districts reduce their mill levies whenever they experienced TABOR surpluses.

The decline in the local property tax base in turn helped spur passage of Amendment 23. By 2000, Colorado had slipped well below the national average for funding its schools. By requiring funding for public schools to increase faster than inflation, Amendment 23 was designed to help Colorado's schools catch up.

While protecting public school funding from cuts during the economic downturn, Amendment 23 exacerbated the problem for other parts of the budget. As a result, budget cuts fell heavily in other areas. By 2004-05, appropriations to colleges and universities were 21 percent below where they were in 2001-02, despite continued inflation and enrollment growth.

The tax cuts enacted by the legislature before the economic downturn contributed to the severity of the revenue shortfall in 2002-03. While the intention may have been to stop collecting excess revenues that would just have to be returned as the economy grew, the actual effect was to greatly exacerbate the decline in revenues as the economy stalled out.

And as revenues finally started to recover with the economy in 2004, Colorado began to feel the full effects of TABOR's ratchet, which lowered the revenue limit more than \$1 billion during the economic downturn. To counter that effect, in 2005 voters passed Referendum C. (See a *detailed explanation of How Ref C works, page 2.*)

That is how we got to where we are today.

The purpose of this report is to understand where we are headed from here forward, and whether that is where we want to go.

One clear lesson from the recent past is that an attempt to address a specific problem will often have unintended consequences – and often in areas seemingly unrelated to the original purpose of the measure.

As Colorado moves forward from here, we need to be especially attentive to the effect of our actions on all areas that matter to our future.

End notes

¹ 2007 levels of service represent the services provided by state government through General Fund appropriations in the FY 2007-08 state budget. We estimate future state appropriations based on projected future changes in the factors that drive the budgets. We assumed no changes to current programs, including reductions, expansions or additions, other than those caused by increases in the number of people served or the costs of providing services.

² 90 percent of General Fund operating appropriations, 79 percent of total General Fund revenues and 81 percent of total state spending (including cash funds and federal funds).

Sources: Colorado Joint Budget Committee, "Fiscal Year 2007-08 Appropriations Report," and Colorado Legislative Council Staff, "Focus Colorado: Economic and Revenue Forecast," 2007-2012, Sept. 20, 2007.

³ Carol Hedges, "Aiming for the Middle," Colorado Fiscal Policy Institute, June 2007.

⁴ Bell Policy Center calculations.

Sources: Gross General Fund revenues reported in Legislative Council documents, and state annual personal income data reported by the U.S. Department of Commerce, Bureau of Economic Analysis. The percentage was reached by dividing General Fund numbers for a fiscal year by personal income numbers for the calendar year ending in that fiscal year. For example, the percentage for 2007 was reached by dividing General Fund for FY 2006-07 by personal income for calendar year 2006.

⁵ This percentage represents only the appropriations to the Colorado Department of Education.

⁶ General Fund moneys are typically reported to make up 30 percent of the Department of Higher Education's total appropriation in official budget and appropriations documents. However, this reporting method includes a double count of College Opportunity Fund (COF) Program appropriations—both as General Fund under the department's COF Program section, and as Cash Funds Exempt under the department's Governing Boards section. To better reflect the actual amount of total funds appropriated to the department, our analysis counts COF Program funding only once, as General Fund in the COF Program section. With this single count of COF, General Fund moneys make up 40 percent of the department's total appropriation.

⁷ Compound average annual growth rate measures how much revenue or appropriations need to grow each year to reach a total. It smoothes out variations and shows how much the revenues or appropriations must increase, on average, to maintain a steady rate of increase over a specific time frame.

⁸ E-mail from Carolyn Kampman, Chief Legislative Analyst, Colorado Joint Budget Committee, Nov. 15, 2007.

⁹ "Focus Colorado: Economic and Revenue Forecast 2004-2009," March 2004, Table 1, and "Focus Colorado: Economic and Revenue Forecast 2003-2008," June 2003, Table 1, Colorado Legislative Council Staff.

¹⁰ These data are based on Legislative Council staff's estimated S.B. 1 and HB 1310 transfers and estimated transportation revenues, taken from Colorado Department of Transportation, 2035 Revenue Forecast and Resource Allocation, Appendix D, page 71, Dec. 14, 2006.

¹¹ "Capital Construction Funding For FY 2007-08," Colorado Legislative Council Staff, Issue Brief No. 07-08, July 31, 2007.

¹² *Ten Years of TABOR*, The Bell Policy Center, 2003.

¹³ Blue Ribbon Panel on Transportation Finance and Implementation web site: www.dot.state.co.us/StateWidePlanning/PlansStudies/blueribbon.asp

¹⁴ Colorado Blue Ribbon Commission on Health Care Reform "Characteristics of the Uninsured in Colorado," (Preliminary Draft) June 12, 2007, The Lewin Group.

¹⁵ Colorado Blue Ribbon Commission on Health Care Reform, "Technical Assessment of Health Care Reform Proposals," Aug. 20, 2007, The Lewin Group; "A Matrix for Comparing the Five Proposals Under Consideration by the Colorado Commission on Health Care Reform," Robin Baker, The Bell Policy Center, Nov. 21, 2007; and Colorado Blue Ribbon Commission on Health Care Reform press release, "\$167 Million in Cost Savings Possible with Health Reform," Nov. 15, 2007.

¹⁶ National Center for Higher Education Management Systems, "Executive Briefing: Colorado Higher Education Financing Study," prepared for the Colorado Commission on Higher Education, 2007.

¹⁷ The adequacy study assumes the following programs and class configurations are in place to support academic accountability expectations:

- Preschool for special needs student
- Universal full day kindergarten for all students
- On-going staff development
- Additional instruction time for students not on track to meet academic expectations
- Student-teacher ratios of 15:1 at P-3 and 25:1 at grades 4-12
- Increased computer technology for students and staff

The \$2.9 billion does not include an estimate for facilities. The Adequacy/Costing Out Analysis was completed by the Colorado School Finance Project and supported by Colorado Association of School Boards, Colorado Association of School Executives and the Colorado Education Association. More information online at www.cosfp.org.

¹⁸ Colorado Division of Property Taxation 2006 Annual Report, Section II, pages 10 and 14.

¹⁹ *Ten Years of TABOR*, The Bell Policy Center, 2003.

²⁰ "Understanding Mill Levy Stabilization in Colorado," Colorado Children's Campaign, April 9 2007.

Looking Forward feedback form

Thank you for your interest in our Looking Forward report. If you would like to receive more information as our work on Colorado's fiscal prospects continues or would like to participate in other Looking Forward activities please provide your contact information below.

I would like to:

- Receive updated reports and other information on the *Looking Forward* fiscal work
- Participate in future *Looking Forward* activities

Name _____

Mailing address _____

City _____ State _____ Zip _____

E-mail _____ Telephone _____

Reader Survey

We also value your opinion about the information and ideas presented in our *Looking Forward* report. Please take a few minutes and complete the following survey. We plan to use the information gathered through these surveys to help shape our work on this topic.

The information collected in this questionnaire is strictly confidential.

Publication of data will not identify any individuals, and the information will only be used in aggregate form.

If you want to provide information to us, but do not want us to include it in the aggregated data developed for future publication, please check here

Summary: *Looking Forward* projects the appropriations needed to maintain 2007 levels of state services during the last three years of Ref C and the first three years under the new excess state revenues cap established by Ref C. It describes how the agency budgets are interrelated and must be viewed in relation to one another. We conclude that 2007 is probably as good as it gets in terms of service levels and that it will be a challenge to maintain those levels in the future.

For the following questions, please consider the report's findings and think about the **overall** condition of Colorado.

1. Generally speaking, do you think things in Colorado today are headed in the:

- Right direction Wrong direction

2. In your opinion, what do you think is the **most** important problem facing residents of Colorado today?

Continued on other side

Please think about the current level of services provided by Colorado state government, such as K-12 education, human services, health care, higher education and transportation. Would you strongly disagree, disagree, agree or strongly agree with the following statements?

	Strongly Disagree	Disagree	Agree	Strongly Agree	No Opinion
3. Current state service levels are sufficient					
4. Colorado needs to increase the level of state services					
5. Colorado does a good job of keeping up with rising state needs.					
6. If Colorado stays on the current course there will not be enough services to meet state needs in the future.					
7. Colorado should change the 6 percent limit on General Fund appropriations to allow more money to be spent on operating budgets.					

8. If you do not think that current State service levels are sufficient to meet future needs, what actions do you think Colorado should take to address this issue?

9. Do you think:

- Revenues should be increased to provide additional services
- Services should be cut to fit within projected revenue
- Don't know

10. Please share any other comments you have about the future direction of the Colorado state budget.

Please return this completed form to:

The Bell Policy Center
 1801 Broadway, Suite 280
 Denver, Colorado 80202



Questions? Comments? Contact The Bell Policy Center

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Research team



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Ed Bowditch is a consultant specializing in public policy analysis and legislative affairs. He is an expert in state budgeting and higher education policy. He served as a vice chancellor for the Colorado State University system, as deputy director of the governor's Office of State Planning and Budgeting, and as staff to the legislative Joint Budget Committee. Mr. Bowditch holds a bachelor's degree from Colorado College and a master's in public policy from Harvard University.



Mark Fermanich is the research director for the Colorado Children's Campaign, where he specializes in education finance and policy. He conducted education funding adequacy studies for Kentucky, Arkansas, Arizona, Wyoming and Washington, and worked on effective professional development for school districts in Chicago, Minneapolis, Cincinnati and Atlanta. Dr. Fermanich holds a bachelor's degree in political science, a master's in public policy and administration and a doctorate in educational leadership and policy analysis, all from the University of Wisconsin.



Scott Groginsky is the director of education initiatives for the Colorado Children's Campaign, where he works on K-12 education policy. He developed the Colorado Closing the Achievement Gap Commission report and is a member of the Gilpin County School Board. He formerly managed early childhood issues for the National Conference of State Legislatures and was the policy director for state Board of Education member Jared Polis. Mr. Groginsky holds a bachelor's degree in political science from the George Washington University.



Carol Hedges is a senior fiscal analyst for the Colorado Fiscal Policy Institute at the Colorado Center on Law and Policy. She is an expert in state fiscal, tax and budget issues, particularly Colorado's TABOR. She is the author of the 2007 report, *Aiming for the Middle*. She was the lead author of the 2003 Bell Policy Center report, *Ten Years of TABOR*. Ms. Hedges holds a bachelor's in public affairs from Emporia State University and a juris doctorate from the University of Kansas.



Alex Medler is vice-president for research and analysis for the Colorado Children's Campaign. He is an expert in the achievement gap and reforms benefiting at-risk children. He directed the work of the Colorado Commission for High School Improvement and helped promote policies and procedures now used by the Colorado Department of Education to more accurately calculate graduation rates. Mr. Medler holds a bachelor's in political science from the University of California Santa Cruz, a master's in political science from the University of Colorado and is presently working toward a doctorate at CU.



Frank Waterous is a senior policy analyst for the Bell Policy Center, where he researches education policy. He is a former senior policy analyst for the Colorado Community College System and the U.S. Government Accountability Office, and worked as an administrator and faculty member at colleges in Colorado and Minnesota. Dr. Waterous holds a bachelor's in anthropology from Dartmouth College, a master's in anthropology from the University of Pennsylvania and in education from the University of Colorado, and a doctorate in education from the University of Minnesota.

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