



**CITY OF LOVELAND**  
CITY MANAGER'S OFFICE

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**AGENDA ITEM:** 1  
**MEETING DATE:** 11/8/2011  
**TO:** City Council  
**FROM:** Bill Cahill, City Manager  
**PRESENTER:** Andrew Lindstad, Colorado Nonprofit Association

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**TITLE:** Presentation on Colorado's Fiscal Reality: A Long-term Structural Deficit

**RECOMMENDED CITY COUNCIL ACTION:** No action required.

**OPTIONS:**

1. Adopt the action as recommended
  2. Deny the action
  3. Adopt a modified action (specify in the motion)
  4. Refer back to staff for further development and consideration
  5. Adopt a motion continuing the item to a future Council meeting
- 

**DESCRIPTION:**

This is a discussion item only. Andrew Lindstad, Fiscal Education Network Coordinator with Colorado Nonprofit Association will discuss Colorado's fiscal challenge.

**BUDGET IMPACT:**

- Positive  
 Negative  
 Neutral or negligible
- 

**SUMMARY:**

The costs to maintain public services exceed the revenues to pay for them. There is consensus that this is a persistent gap due to long-term structural problems that will not go away even after the economy recovers. Colorado must implement policy changes that address the structural nature of the problem. The impacts of the November 1<sup>st</sup> election results will be incorporated into the discussion.

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**REVIEWED BY CITY MANAGER:**

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**LIST OF ATTACHMENTS:**

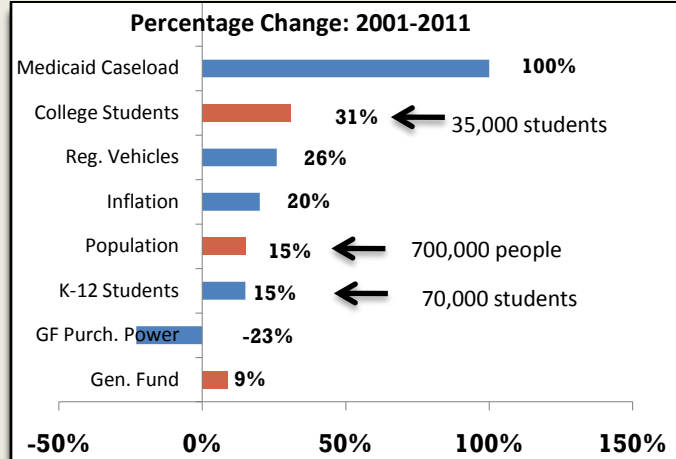
PowerPoint Slide Set

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# WE DECIDE

## What Kind of Community and State Do We Want to Live In?

### CO Has Grown Yet State Revenues Have Not



GF, population, inflation, state economy data: CO Leg. Council revenue forecasts.  
K12 students, vehicle, college students, Medicaid data: CO Fiscal Policy Institute.

### Why Can't Revenues Keep Up?

#### Voters chose:

- Strict limits on homeowner property tax.
- Strict limits on state sales & income tax revenue.
- Require more state funds for K-12.
- Voter approval of any new tax increase.

#### Legislators chose:

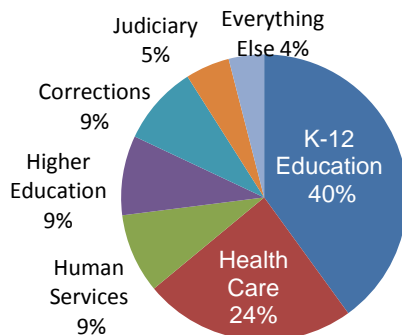
- Sales tax cut from 3% to 2.9%; income tax from 5% to 4.6% estimated at more than \$500 million in annual revenue in the 1990s and early 2000s.

#### Other factors:

- Shift to service economy
- 40% health care inflation over past decade.
- Aging population with more health care needs.

### How Does the State Spend Our Money?

#### CO General Fund Spending 2011-12



Bell calculations: Data from CO Legislative Joint Budget Committee's FY 2011-12 Companion Budget Package Summary to Senate Bill 11-209 (Long Bill Narrative), prepared by Joint Budget Committee Staff, 4/5/11

### How Much Do We Each Pay?

In 1993, we averaged about 5¢ of every dollar we earned to the General Fund (via taxes)



Today, in 2011, that amount is only 3.2¢ of every dollar



Bell Policy Center

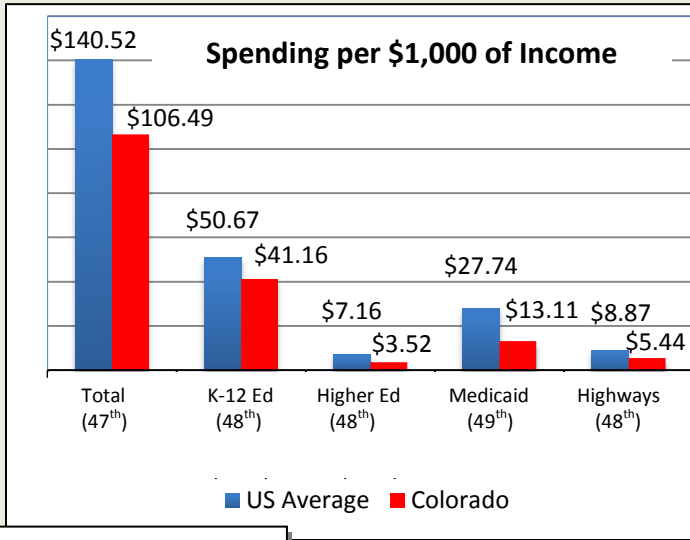
“Focusing on trimming the fat fails to address Colorado’s systemic budgetary problems.”

Independence Institute, *Citizens’ Budget*

“Even a strong recovery and sustained job growth over the next 15 years is not enough (to solve the budget problems).”

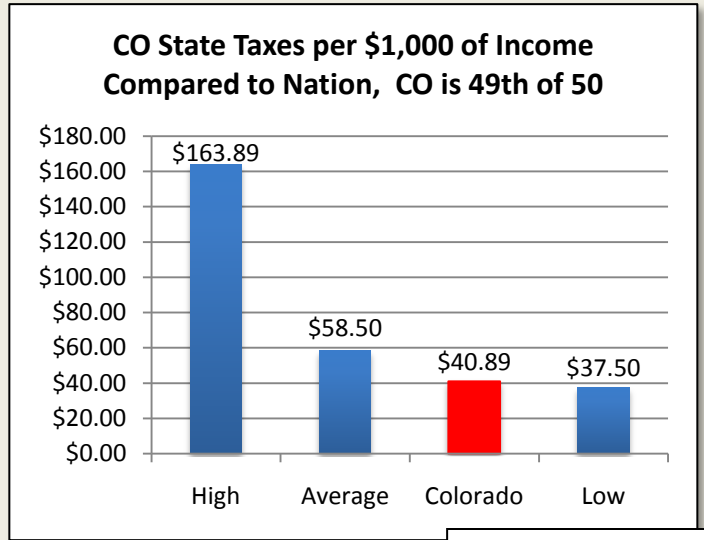
DU Center for Colorado’s Economic Future

## How Does Our Spending Compare to Other States?



CO Fiscal Policy Institute, 2009

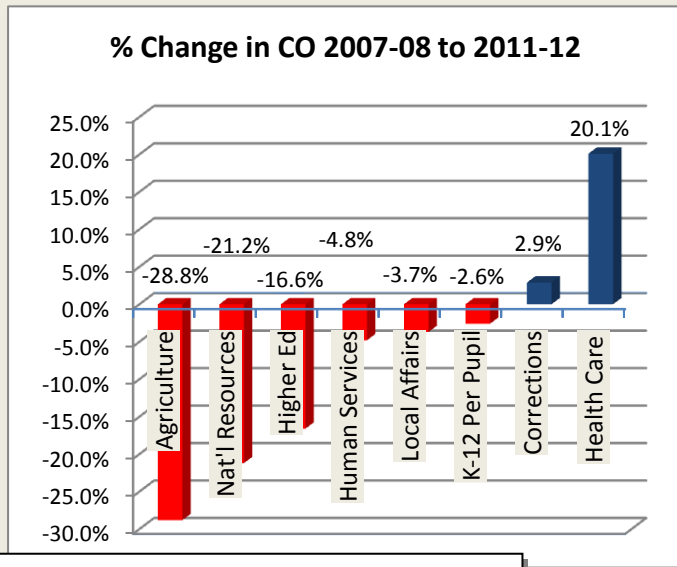
## How Do Our Taxes Compare to Other States?



Colorado Legislative Council

## What Are the Implications?

### Public Services Must Be Cut



CO Gov. Hickenlooper letter to JBC, Ed News Colorado

### Quality of Life Is Impacted

Dramatic reductions in public services will be required. (without new revenues or changes in policy)

- 19% cuts to K-12 education for 13 of next 14 years.
- 90% cuts to the following programs after FY 2017-18.
  - Agriculture
  - Higher Education
  - Military and Veterans Affairs
  - Public Health & Environment
  - Personnel and Administration
  - Local Affairs
  - Natural Resources
  - Public Safety
  - Regulatory Affairs
  - Revenue

Center for Colorado's Economic Future

## What Is the Expectation For Coming Years?

In order to close the structural budget gap, "public schools [must] be cut at least 19% in 13 of 14 years from now until FY 2024-25."

University of Denver Center for Colorado's Economic Future, August 31, 2011

## We Must Decide

"The ball is back in the voter's court. It now is up to the people of Colorado to decide what kind of place they want their state to be."

Durango Herald, 2/16/11

## What Can I Do?

1. **Register to Vote:** If you're not registered, you can't vote. If you don't vote, others will decide.
2. **Join Fiscal Education Network:** ColoradoNonProfits.org
3. **Learn More:** BoomorBustColorado.com
4. **Get Connected:** Colorado Reform Roundtable: Email Abigail Hinga at Hinga@bellpolicy.org



Colorado  
**NONPROFIT**  
Association

# Fiscal Education Network

A Project of the  
Colorado Nonprofit Association

# Our Purpose: A Different Kind of Conversation

1. **Build network of organizations and individuals committed to helping Coloradans understand the state's fiscal challenges.**
2. **Provide guest speakers to groups that would like to convene conversations in their communities.**
3. **Recruit, train and support *Local Conversation Leaders*.**
4. **Provide fiscal education content and materials to the network.**

# Colorado's Fiscal Reality: A Long-term Structural Deficit

Colorado is facing an unprecedented fiscal challenge.

**The costs to maintain public services exceed the revenues to pay for them.**

There is consensus that this is a persistent gap due to long-term structural problems. It will not go away even after the economy recovers.

**Colorado must implement policy changes that address the structural nature of the problem.**

# Colorado's Political Reality: The Voters Decide

Coloradans have a unique responsibility to make decisions at the ballot box.

**As voters, it's our duty to make choices about how to balance people's desire for low taxes *and* robust public services.**

Requires meaningful conversations about the kind of state we want Colorado to be.

# Are we ready to face up to Colorado's fiscal challenge?

## We're not sure more taxes need to be a part of the solution:

55% to 67% of voters are opposed to new taxes to balance state budgets.

## We oppose more spending cuts:

67% to 80% oppose any cuts to higher education, health care, roads and transportation, K-12 education.

## People are retreating from the “public square” :

Trust in elected officials and legislative bodies at historic lows.  
People don't want to be part of public discourse.

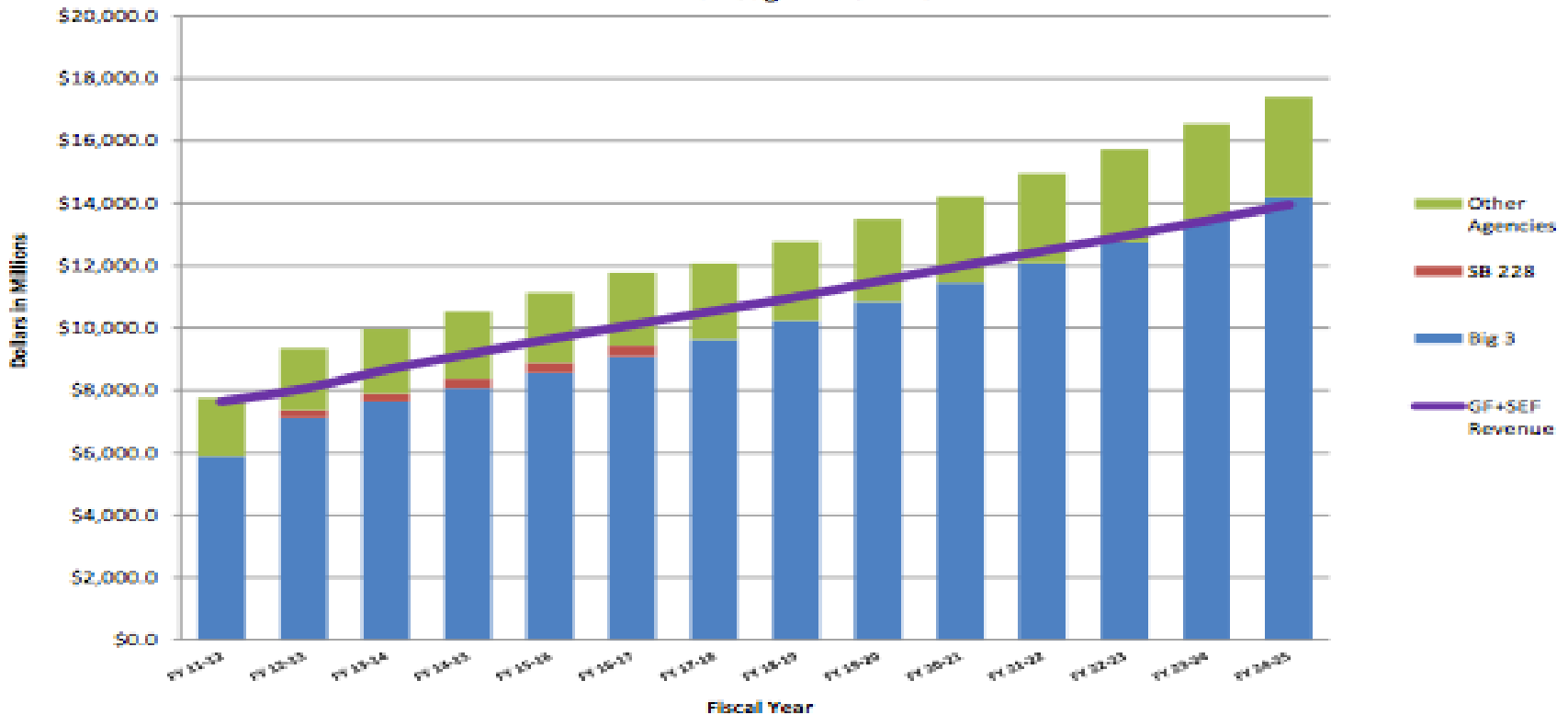


# Different Kinds of Questions

- What public services are important to our quality of life?
- How do reductions in public services affect our our community?
- How have we experienced reductions in public services?

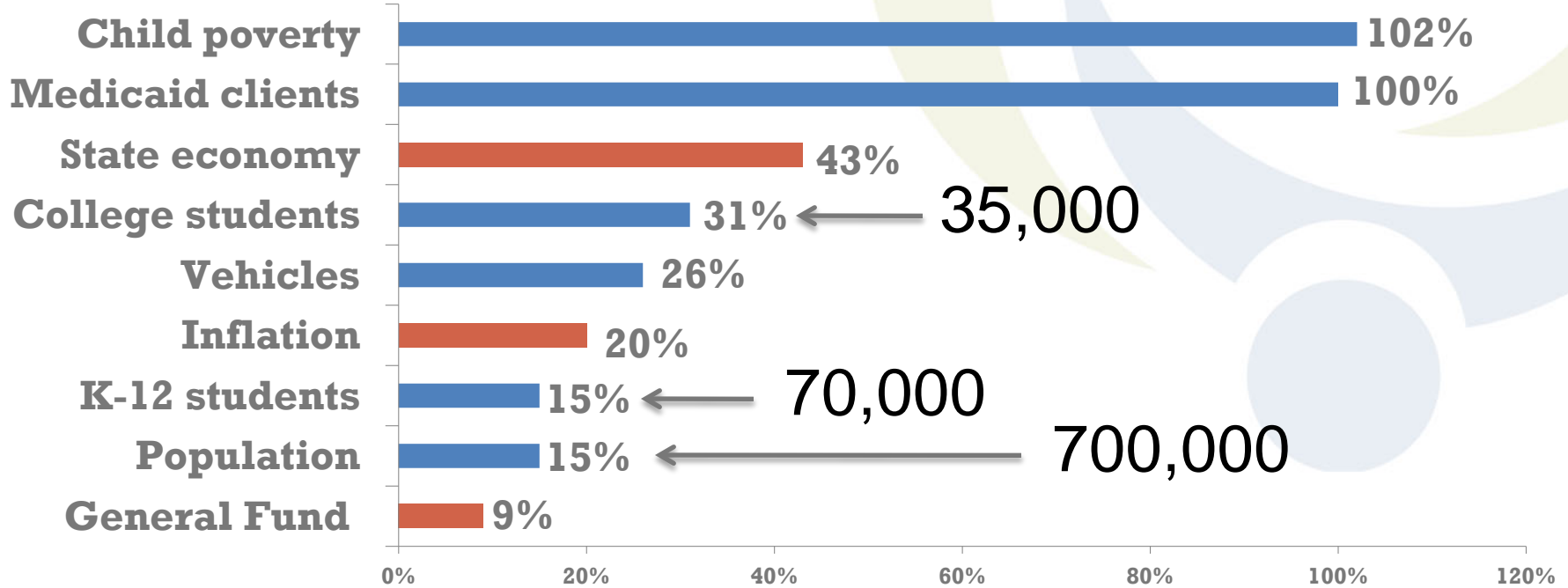
# Costs to maintain public services exceed revenues.

**Comparison of General and State Education Fund Revenue with Expenditures**  
FY 11-12 through FY 2024-25



# Colorado has grown. Revenues haven't kept pace.

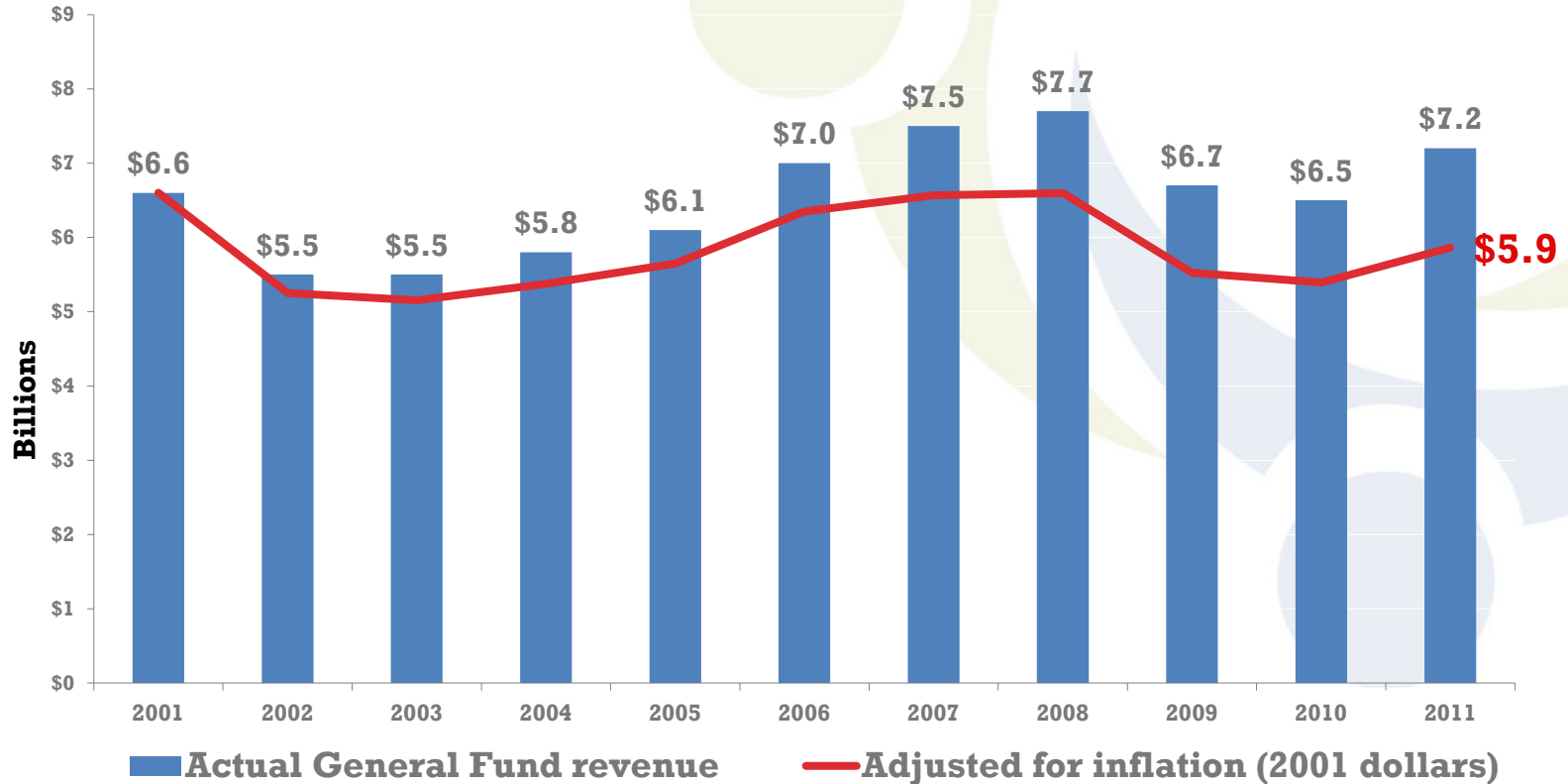
## Percentage Change - 2001-2011



General Fund, population, inflation and state economy data from Colorado Legislative Council revenue forecasts. K12 students, vehicle registration, college students and Medicaid client data from Colorado Fiscal Policy Institute. Child Poverty data from the Colorado Children's Campaign.



# General Fund Purchasing Power Down 11% Since 2001



Revenue data from Colorado Legislative Council staff. Inflation adjustment calculations made by Bell staff based on Denver-Boulder-Greeley Consumer Price Index as reported in Colorado Legislative Council forecasts.

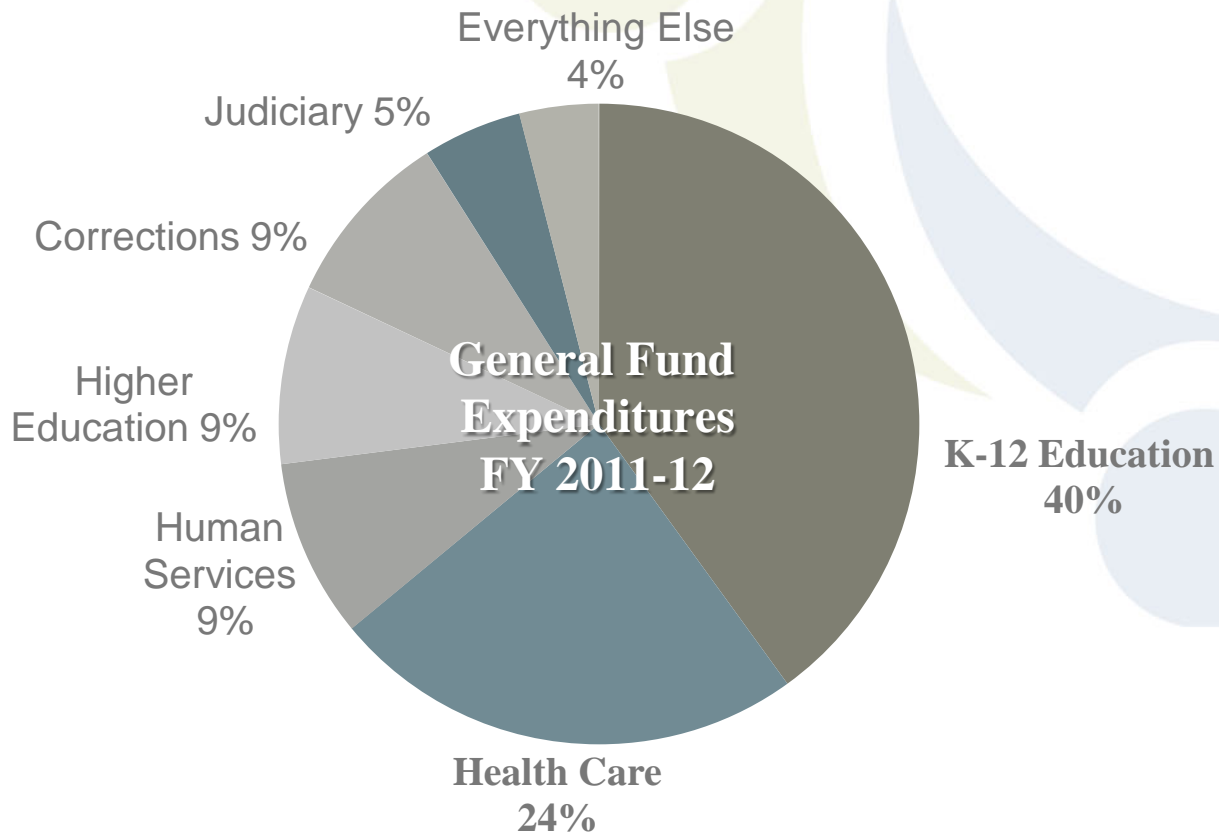


# Is it just the recession?

“Even a strong recovery and sustained job growth over the next 15 years is not enough (to solve the budget problems).”

– **DU Center for Colorado’s Economic Future**

# Does the state misallocate funds?



Source: Bell calculations based on data from the Colorado Legislative Joint Budget Committee's FY 2011-2012 Companion Budget Package Summary to Senate Bill 11-209 (the Long Bill Narrative), prepared by Joint Budget Committee Staff, April 5, 2011.



# Is it waste, fraud and abuse?

“Focusing on trimming the fat fails to address Colorado’s systemic budgetary problems.”

“Colorado must implement policy changes that address the structural nature of the problem.”

– Independence Institute, *Citizens’ Budget*

# Recessions, Population and Inflation

40% health care inflation over past decade

Aging population demands more health care

Two recessions



# Voters Chose Strict Limits on Taxes

Strict limits on homeowner property tax.

(Gallagher)

Strict limits on state sales & income tax revenue.

(TABOR)

Require more state funds for K-12 education.

(Amendment 23)

Voter approval of any new tax increase.

(TABOR)

# Legislators Chose to Reduce Taxes

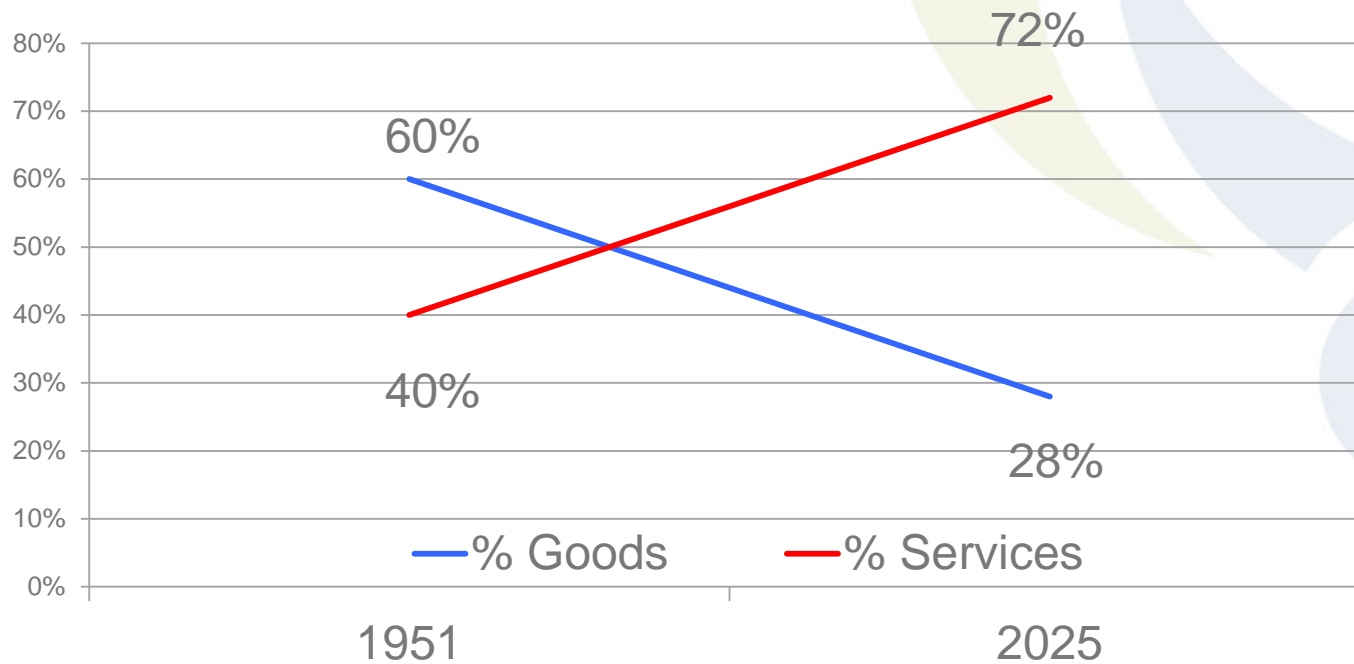
Cut sales tax from 3% to 2.9%

Cut income tax from 5% to 4.6%

Cost of cuts estimated at more than \$500 million  
in annual revenue.

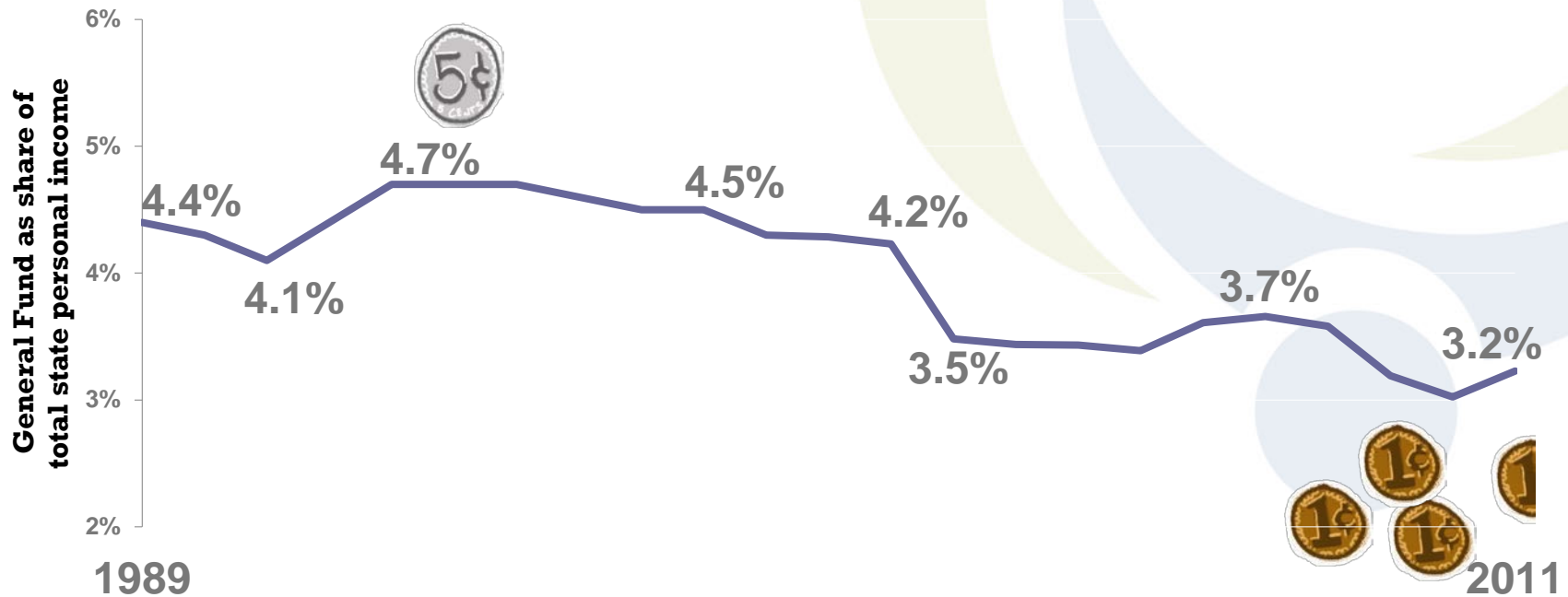
# The Economy Is Changing

## Long Term Shift from a Goods-Based Economy to a Services-Based Economy



# We Pay Less Tax

We used to give about 5 cents of every dollar to General Fund.  
Now we give only about 3 1/2 cents.



Source: Calculated by Bell Staff based on gross General Fund revenues reported in Legislative Council documents, and state personal income data reported by the U.S. Department of Commerce, Bureau of Economic Analysis.

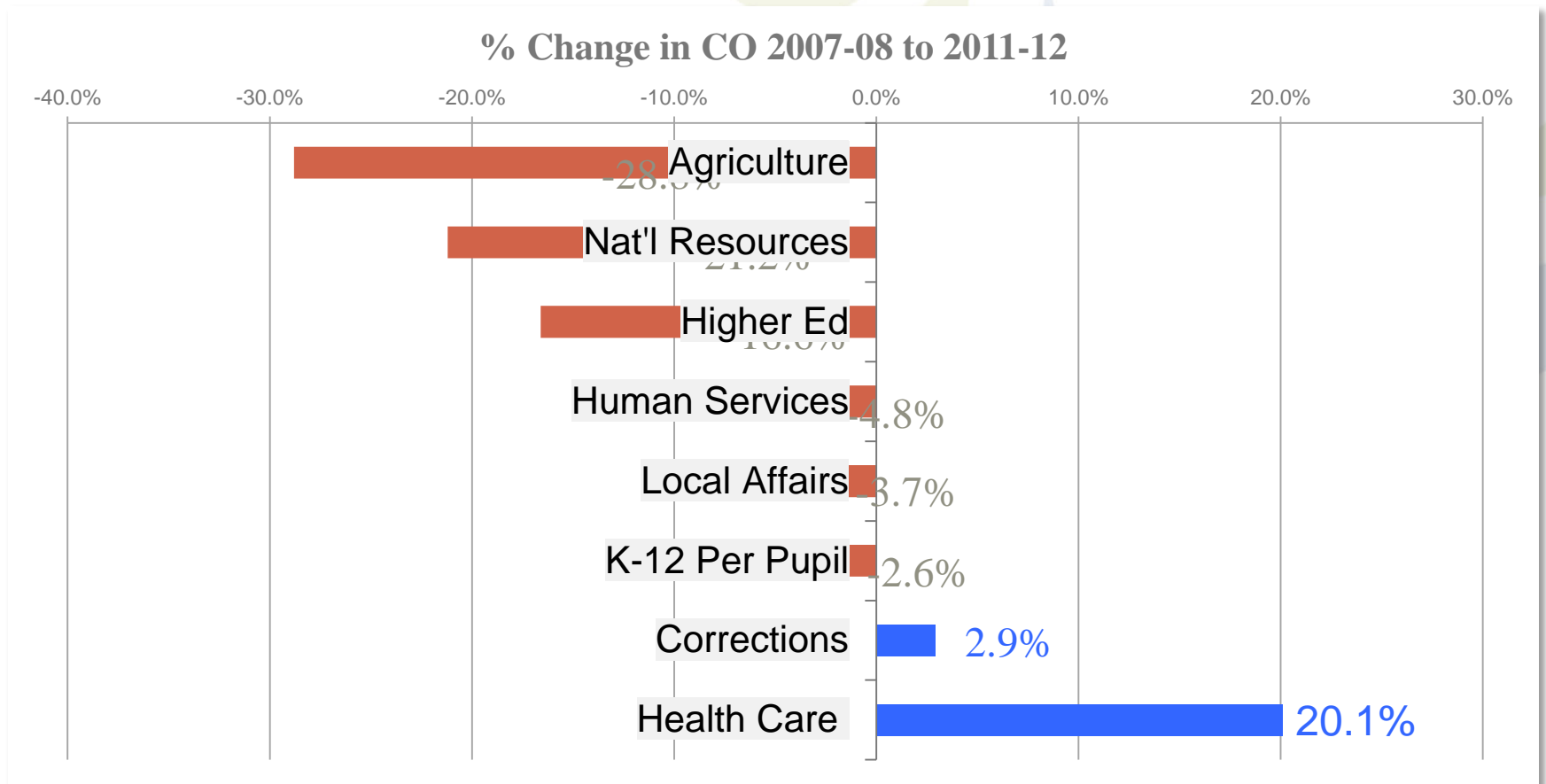


# We pay less of nearly every kind of tax.

(taxes as percentage of income)

Type of Tax	FY 98-99	FY 08-09	Change
Individual Income	\$23.69	\$20.74	-12.5%
Corporate Income	\$2.54	\$1.55	-39.0%
Sales & Use	\$14.73	\$10.89	-24.2%
Gas	\$4.35	\$2.90	-33.3%
Liquor	\$0.22	\$0.17	-22.7%
Tobacco	\$0.57	\$1.02	78.9%

# Public Services Must Be Cut



# Expect more cuts.

In order to close the structural budget gap, “**public schools [must] be cut at least 19% in 13 of 14 years** from now until FY 2024-25.”

University of Denver Center for Colorado’s Economic Future, August 31, 2011

“The strong growth in revenue in FY 2010-11 is expected to be one-time in nature” and 2011-12 revenue “is expected to be essentially flat.”

Gov. Hickenlooper’s budget director, Henry Sobanet, June 20, 2011

“Most likely... we still will be having to cut in 2012-13.”

Rep. Mark Ferrandino, D-Denver, member of the JBC  
Education News Colorado, June 20, 2011

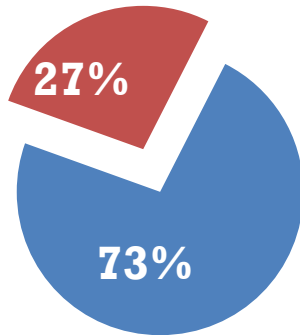
## Dramatic reductions in public services will be required. (without new revenues or changes in policy)

- **19% cuts to K-12** education for 13 of next 14 years.
- **90% cuts** to the following programs after FY 2017-18.
  - Agriculture
  - Higher Education
  - Military and Veterans Affairs
  - Public Health & Environment
  - Personnel and Administration
  - Local Affairs
  - Natural Resources
  - Public Safety
  - Regulatory Affairs
  - Revenue



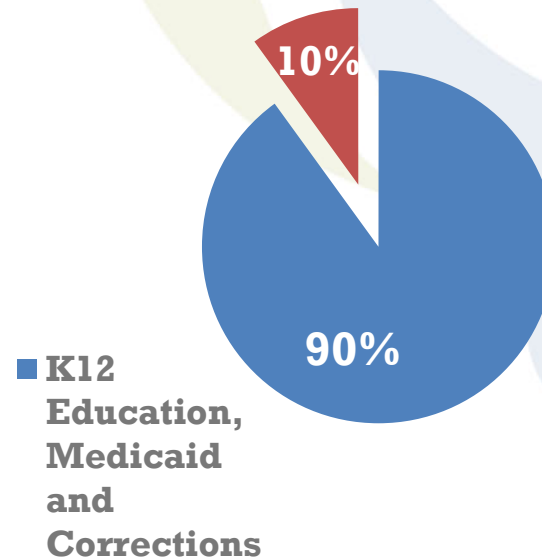
# Medicaid, K-12 Education and Corrections Will Squeeze Out Everything Else

**2012 General Fund**



■ Higher Education, Human Services, Judiciary, and everything else

**2025 General Fund**



■ K12 Education, Medicaid and Corrections

Numbers for 2012 are Bell calculations based on data from the Colorado Legislative Joint Budget Committee's *FY 2011-2012 Companion Budget Package Summary to Senate Bill 11-209 (the Long Bill Narrative)*, prepared by Joint Budget Committee staff, April 5, 2011. Numbers for 2025 are staff projects by the Center for Colorado's Economic Future at the University of Denver.



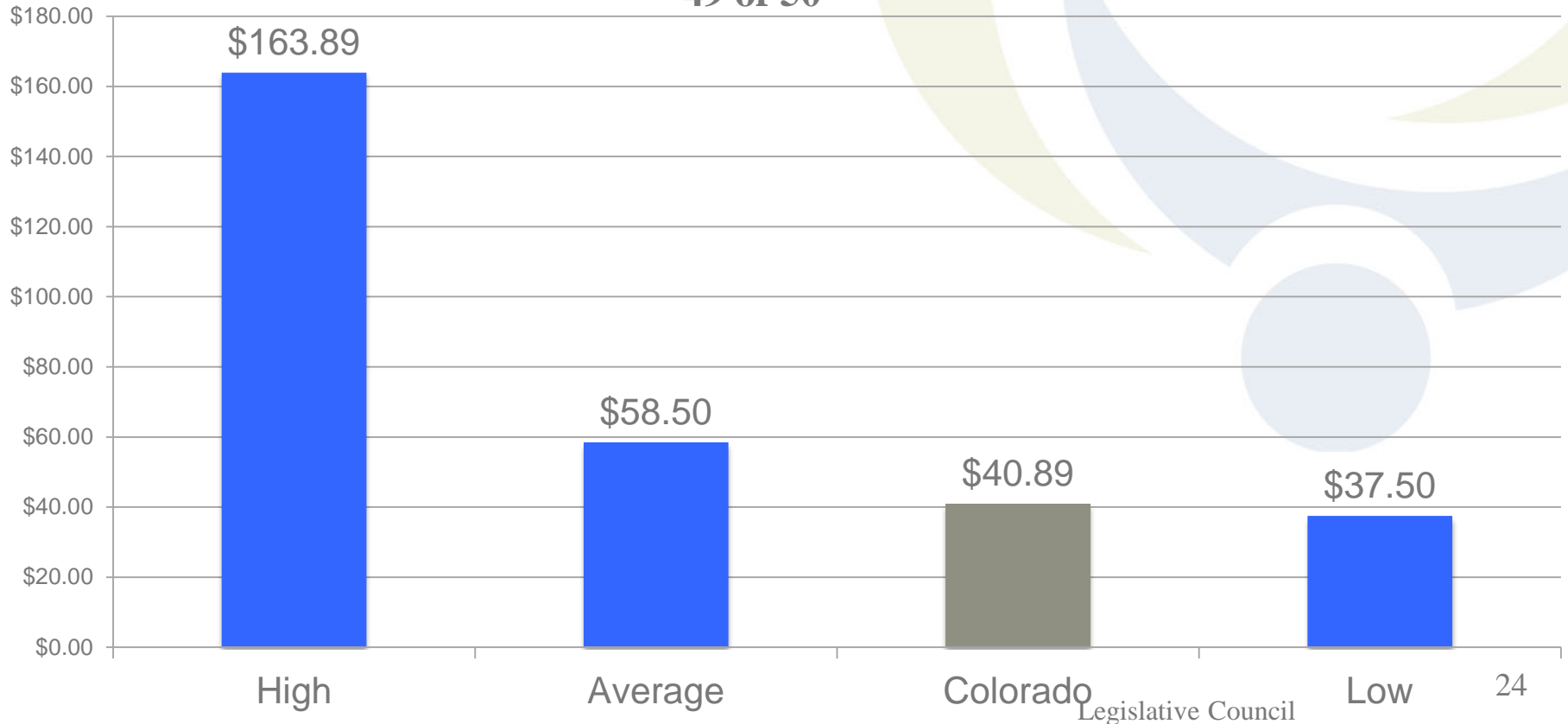
# Colorado's Tax Burden Is Low

(compared to other states)

- **Combined state and local tax burden = 39<sup>th</sup>**  
(Tax Foundation)
- **Best states for retiree taxes = 5<sup>th</sup>**  
(MSN Money)
- **Business tax climate = 15<sup>th</sup>**  
(Tax Foundation)
- **State tax burden as percentage of income = 49<sup>th</sup>**  
(Colorado Legislative Council)
- **2<sup>nd</sup> lowest state sales tax burden**  
(Legislative Council, Colorado Department of Revenue)

# Colorado's Tax Burden Is Low (compared to other states)

Colorado State Taxes per \$1,000 of Personal Income  
Compared to Nation  
49 of 50

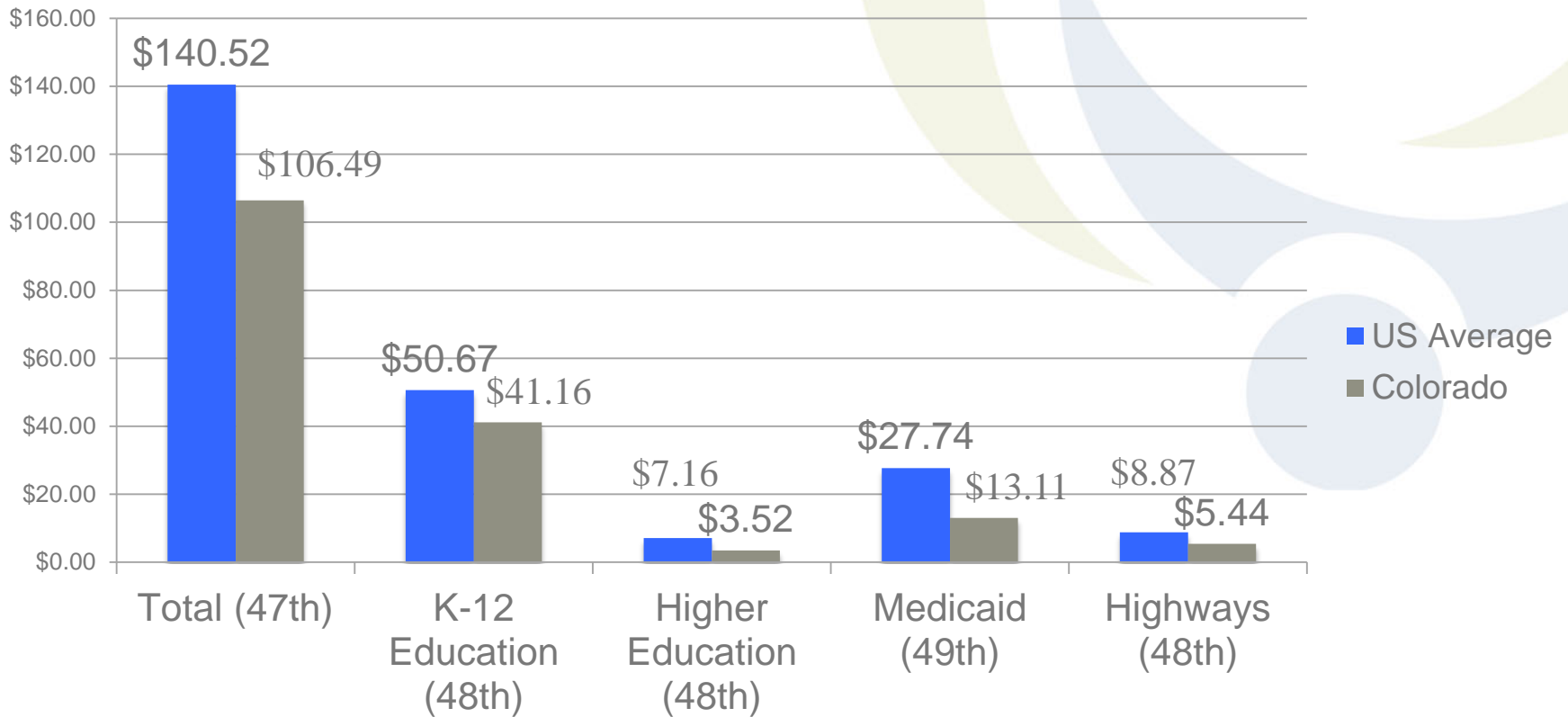


# Colorado Invests Less in Public Services (compared to other states)

- Total spending compared to other states = **45<sup>th</sup>**
- K-12 spending = 32<sup>nd</sup> (**48<sup>th</sup>** as a percentage of income)
- Higher Education spending = 48<sup>th</sup>
- Medicaid spending = 49<sup>th</sup>
- Highway spending = 48<sup>th</sup>

# Colorado Invests Less in Public Services (compared to other states)

Spending per \$1,000 of Personal Income  
Colorado v U.S. Average



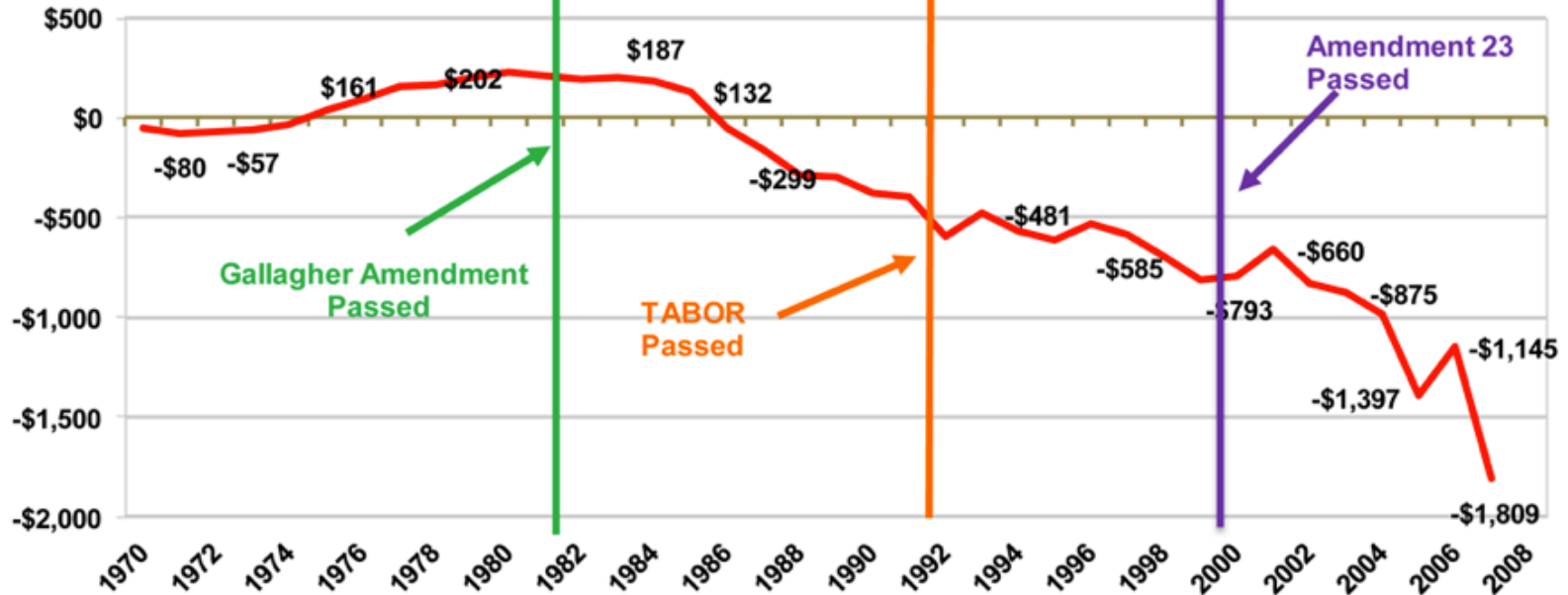
# Colorado invests less in K-12 than most states.



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

Source: National Center for Education Statistics

Difference between CO and National Average



# \$700 million less for K-12

(reductions in state funding)

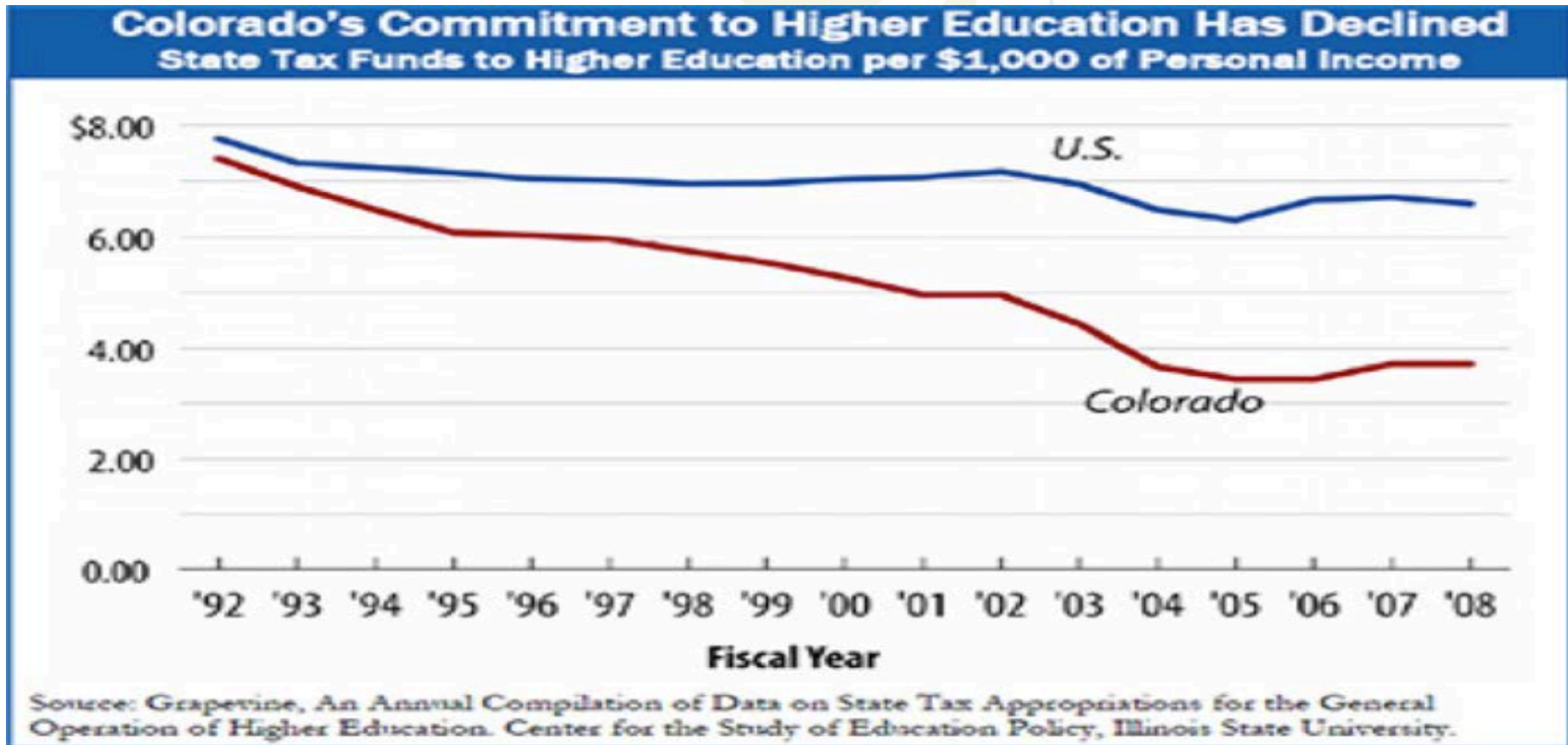
	Per pupil	Total
Aurora	\$1,000	\$36.7 million
Cherry Creek	\$954	\$47.4 million
Commerce City	\$1,108	\$7.3 million
Denver	\$1,023	\$76.3 million
Douglas	\$925	\$54.9 million
Englewood	\$984	\$2.9 million
Jefferson	\$940	\$76.0 million
Littleton	\$928	\$13.9 million
Mapleton	\$970	\$7.2 million
Westminster	\$997	\$11.5 million

# Questions to consider

- To what extent can school districts absorb further cuts in funding?
- Should K-12 funding be a state concern? Or, should each school district go it alone?
- Do larger, wealthier communities have any obligations to smaller, poorer communities?

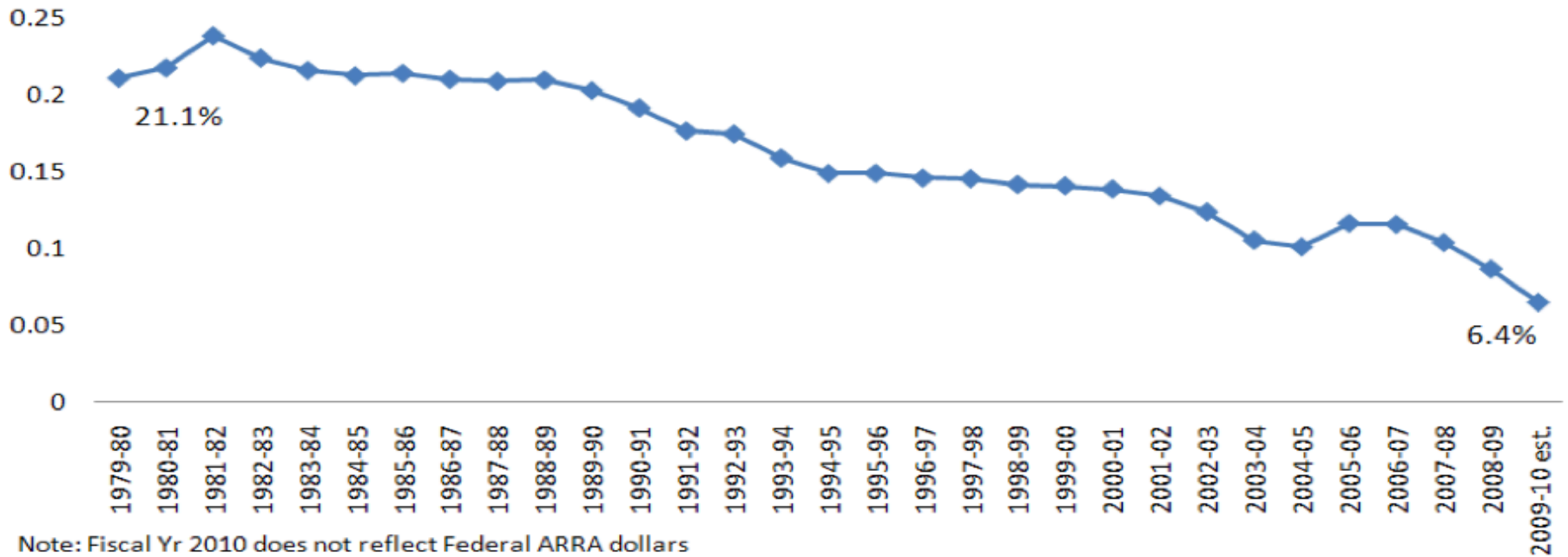


# Colorado invests less in higher education. (compared to most states)



# Higher education funding has been in decline for 30 years.

## Higher Education State Funding as a Percent of Total State Funds



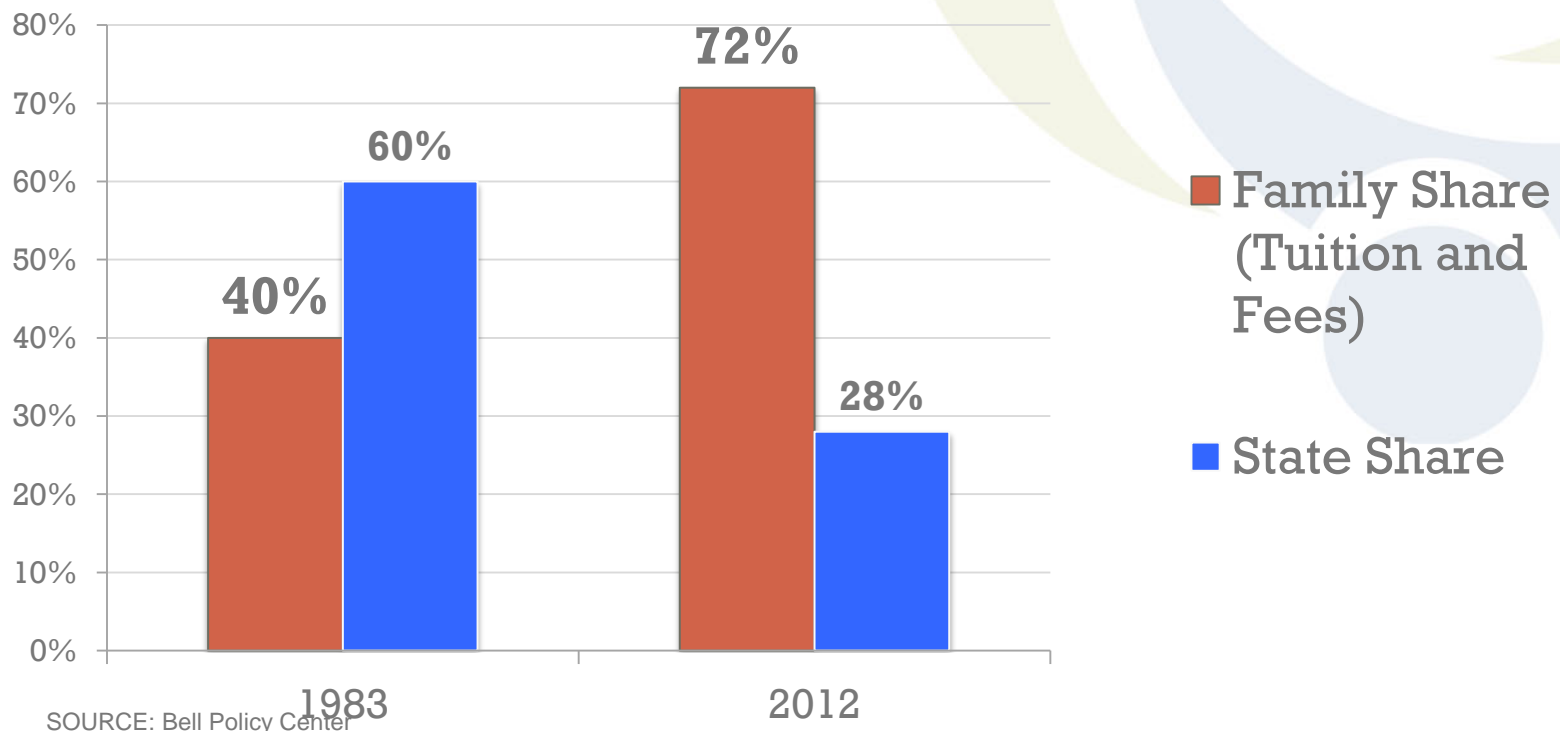
**Graph Notes:** This measures the amount of funds that the state has dedicated to higher education as a percent of the total state general fund budget. In 1980, funding for higher education accounted for 21.1 percent of the total state budget. In the current year, higher education funding accounts for 6.4 percent of the state general fund budget, down more than 200 percent since 1990.

# Tuition is on the rise.

College or University	5 year % increase resident tuition
University of Colorado	54%
Colorado State University	52%
Fort Lewis College	34%
University of Northern Colorado	43%
Adams State	45%
Mesa State	59%
Metro State	27%
Western State	34%
School of Mines	47%
Community College System	29%

## Costs to educate a student are going down. Families and students pay more.

Colorado State estimates that it educates a student for 4 percent less in inflation-adjusted dollars than it did 20 years ago. What has changed is that, 20 years ago, two-thirds of the cost of a CSU education was paid by the state.



# Two Numbers to Consider

(1999 to 2009)

**16%**

**(Increase in Median Household Income)**

**154%**

**(Increase in College Tuition)**

# Questions to consider

- Is there value in subsidizing Colorado students to attend college?
- How much should families and students be expected to pay?
- Should Colorado continue to fund all the colleges and universities it does today?

# Demand for Family Services Is Rising Funds to Support Services Are Flat

## Family Services\*

+102% increase in child poverty

+ .5% increase in funds to support vulnerable children and families

-2% decline in health care funds for special needs children

\*2001-2011

# Transportation Department Rates Current Services at C+

## Roads and Bridges

- 50% are in good/fair condition
- 7% are in poor condition



# Independence Institute Recommends Permanent Cuts

- Impose statewide cap on teacher salaries
- End direct funding to University of Colorado and Colorado State University systems
- Return Medicaid to 2007 eligibility and spending levels
- Reduce incarceration of non-violent offenders
- **Redirect Great Outdoors Colorado funds to general fund**
- **Repeal Amendment 23**

# Proposition 103

(Formerly known as Initiative 25)

Restore state income, corporate and sales taxes to their 1999 levels for the benefit of education:

- Corporate income tax and personal income tax rates would increase from 4.63% to 5%.
- The state sales tax rate would increase from 2.9% to 3%.
- The initiative would raise an anticipated \$532 million per year.
- The new rates would be in effect temporarily for five years, beginning in January 2012.

# Proposition 103

(formerly known as initiative 25)

## Estimated Tax Impact on Taxpayers

	Annual Income \$50,000	Annual Income \$100,000	Annual Income \$200,000
Ave Increase Income Tax	\$130	\$259	\$518
Ave Increase Sales & Use Tax	\$14	\$23	\$46
Weekly Impact	\$2.75	\$5.42	\$10.85

# Estimated Increase in Tax Collections under Proposition 103\*

*(in millions of dollars)*

Year	Individual Income Tax	Business Income Tax	Sales & Use Tax	Total
2012	\$398.8	\$39.8	\$76.1	\$514.7
2013	\$423.3	\$44.7	\$79.5	\$547.5
2014	\$477.0	\$47.9	\$83.0	\$577.9
2015	\$472.1	\$51.3	\$86.8	\$610.2
2016	\$498.7	\$55.0	\$90.7	\$644.4

*\*Amounts are shown for calendar years. The ballot title reflects budget year amounts.*

# Estimated Increase in Tax Collections under Proposition 103\*

*(in millions of dollars)*

Type of Household	Tax under Current Law	Tax under Proposition 103	Amount of Increase
Single person Annual income of \$35,000 Colorado	\$1,268	\$1,369	\$101
Single with children Annual income of \$70,000	\$2,248	\$2,428	\$180
Married filing jointly Annual combined income of \$125,000	\$3,949	\$4,264	\$315

# Arguments Against Prop 103

- Raising taxes may slow Colorado's economic recovery.
- Does not provide a plan for how new revenues will improve education.
- Does not prevent cuts or curb increased spending for other budget categories.
- When tax expires, large education cuts will be required.

# Arguments For Prop 103

- Investing in education may help to speed up the economic recovery.
- It is important to reverse the trend of deep cuts to education and the fall-out from these cuts.
- Without action, there will be more deep cuts to education.
- Proposition 103 raises taxes only a fraction of a percentage to 1999 levels.

# Learn More

## Supporting Proposition 103

- Yes on Prop 103 — [www.voteyeson103.com](http://www.voteyeson103.com)
- Great Education Colorado — [www.greated.org](http://www.greated.org)
- Colorado Fiscal Policy Institute — [www.cclponline.org/fiscal\\_policy](http://www.cclponline.org/fiscal_policy)

## Opposing Proposition 103

- Too Taxing for Colorado — [www.tootaxing.org](http://www.tootaxing.org)
- Save Colorado Jobs — [www.savecoloradojobs.org](http://www.savecoloradojobs.org)



# The Ballot Language

Shall state taxes be increased \$536.1 million annually in the first full fiscal year and by such amounts as are raised annually thereafter by amendments to the Colorado Revised Statutes concerning a temporary increase in certain state taxes for additional public education funding, and, in connection therewith, increasing the rate of the state income tax imposed on all taxpayers from 4.63% to 5% for the 2012 through 2016 income tax years; increasing the rate of the state sales and use tax from 2.9% to 3% for a period of five years commencing on January 1, 2012; requiring that the additional revenues resulting from these increased tax rates be spent only to fund public education from preschool through twelfth grade and public postsecondary education; specifying that the appropriation of the additional tax revenues be in addition to and not substituted for moneys otherwise appropriated for public education from preschool through twelfth grade and public postsecondary education for the 2011-12 fiscal year; and allowing the additional tax revenues to be collected, kept, and spent notwithstanding any limitations provided by law?

# Questions to consider

- What public services can we do without? How will that affect our quality of life?
- Can Colorado afford a tax increase? Can Colorado afford not to raise more revenues?
- Subjective questions Colorado voters have an obligation to consider.

# Colorado Voters must Decide

“[T]he ball is back in the voters’ court. It now is up to the people of Colorado to decide what kind of place they want their state to be.”

- **Durango Herald, February 16, 2011**

# Learn More

- **BackseatBudgeter.com by Engaged Public** — [www.backseatbudgeter.com](http://www.backseatbudgeter.com)
- **Bell Policy Center** — [www.bellpolicy.org](http://www.bellpolicy.org)
- **Boom or Bust Colorado** — [www.boomorbustcolorado.com](http://www.boomorbustcolorado.com)
- **Center for Colorado's Economic Future (DU)** — [www.du.edu/economicfuture](http://www.du.edu/economicfuture)
- **Colorado Department of Higher Education** — <http://higher.ed.colorado.gov>
- **Colorado Tax Tracks** — [www.colorado.gov/taxtracks](http://www.colorado.gov/taxtracks)
- **Education News Colorado** — [www.ednewscolorado.org](http://www.ednewscolorado.org)
- **Independence Institute's *Citizens' Budget*** — <http://tax.i2i.org/citizens-budget>

# Learn More

## Colorado Nonprofit Association

**Andrew Lindstad: [alindstad@coloradononprofits.org](mailto:alindstad@coloradononprofits.org)**

303.832.5710

[www.coloradononprofits.org](http://www.coloradononprofits.org)

## Fiscal Education Network

**John Creighton**

**[john@creighton.com](mailto:john@creighton.com)**

303.682.0907