



COLORADO FISCAL POLICY INSTITUTE

Justice and Economic Security for all Coloradans

Budget 2008 Legislative Session

SUMMARY

Funding constraints kept bold plans on hold. Small steps were taken in terms of transparency, process and healthcare. Unfortunately, special interests, like mutual fund companies, had more success than low-income working families. But the state still will be handicapped in funding critical priorities due to revenue shortfalls and budgetary limits imposed by the constitution or by legislation.

Long Bill

The Colorado House of Representatives passed the Long Bill, which authorizes a budget \$17.6 billion for state operations for Fiscal Year 2008-09, a 6.7 percent increase from the current year, FY 07-08. The budget proposal includes an 8.6 percent increase (\$64.6 million) for higher education, a 5 percent increase (\$152 million) for K-12 education, and a 4.7 percent increase (\$68.1 million) for state health care programs. Corrections is slated for an 8.3 percent increase (\$51.7 million). The state will add 1,334 full-time employees to the ranks, most of which would be in corrections (268), higher education (524), and the courts (221).

Among the highlights:

- The provision of health-care coverage for an additional 50,000 low-income children.
- A \$30 million boost in support services for Coloradans with developmental disabilities.
- \$10 million in need-based aid and \$53 million to expand the College Opportunity Fund to more than 30,000 Coloradans was included in the budget.
- 22,000 more 5-year-olds can attend full-day kindergarten.
- A \$2 million incentive program in the Governor's Energy Office to help consumers afford photovoltaic and solar thermal systems.

Revenue Situation

Since March, Legislative Council increased its five-year forecasts in June due to stronger than expected individual income tax receipts and severance taxes from rising energy prices. The income tax receipts were offset by decreases in sales, use and insurance premium taxes. In addition, while increasing energy prices translates into increased severances taxes, it also increases the economic burden on the public. The total

increase in the five year forecast-period revenues is around 1.3%, with an increase in \$2.91.0 million in General Revenue and \$427.4 million in Cash Fund Revenue. General Fund revenue will decrease by around \$165 million for FY 2007-08 and \$66.1 million for FY 2008-09.

The implications of these reduced General Fund estimates are most acute in transportation and capital construction. For transportation, the SB-1 transfer for FY 2008-09 remains about the same, but sharply reduced from the December forecast by about \$70 million. The HB-1310 transfer for FY 2008-09 was reduced to a total of \$8.2 million for both transportation and Capitol construction with no transfer occurring in FY2009-10. An additional \$45 million, however, was appropriated to the Capital Construction Fund for FY 2007-08 through HB08-1376. Capital Construction transfer rose from \$7.6 million to \$24.9 million for FY 2008-09.

TAX CREDITS & FEES OF INTEREST

HB08 1049-Child Care Income Tax Credit

The legislator voted to extend this tax credit for donating money to promote child care in Colorado for another ten years. The credit is currently scheduled to expire January 1, 2010, after the 2009 tax year, but now has been extended through the 2019 tax year.

HB08 1010-Motor Vehicle Traffic Fines

This bill raises fees on a variety of traffic fines with the money to the HUTF fund.

HB08 1076-Fees For Copies Criminal Justice Records

The bill limits the fee that a criminal justice agency may charge for a copy of a criminal justice records.

HB08 1098-Repeal Parking Fees Person Disabilities

The bill repeals the fee for the issuance of a placard that allows a disabled person to use parking privileges for persons with disabilities.

HB08 1127- Developmentally Disabled Employee Income Tax Credit

As amended in the House Finance Committee, HB08-1127 establishes an income tax credit for taxpayers who hire individuals with a developmental disability employed at a workplace located in one of the following seven counties: Adams, Arapahoe, El Paso, Jefferson, Logan, Montrose, or Morgan.

SB08 206-Justice Center State Museum Agreements

This bill raises civil filing fees to help fund the consolidation of all justice-related agencies.

SB08 214-Local Government Medicaid Provider Fees

The legislature imposed a provider fee on health care providers to gain matching federal dollars. These fees would then be returned to qualified providers. But this legislation might not meet federal requirement and is of dubious legitimacy.

TAXES

HB08 1362-Earned Income Tax Credit

Though it narrowly failed in House Finance Committee, H.B. 1362, the bill to restore the state Earned Income Tax Credit (EITC), did make some progress. In committee and more broadly, there was nearly unanimous support for the merits of EITC. The sticking point and fierce opposition came with the funding mechanism, which was a proposal to use unspent federal tax dollars that the counties have stockpiled for years, to the tune of \$136 million.

The bill would have provided more than 250,000 low-income working households with a much-needed tax credit to help pay for basics like gas and groceries and pumped \$52 million into local economies. CCLP and COFPI worked doggedly to pass this legislation, and helped lead the effort of more than forty supporting organizations to restore the EITC.

HB08 1380- Single Sales Factor

The so-called Single Sales Factor bill, H.B. 1380, passed the legislature. Though COFPI opposed the bill, the legislation was amended to include some positive accountability and transparency steps.

The bill changes how corporations allocate their income to Colorado for corporate income tax purposes. The change will mean that corporations will be taxed only on the portion of their total income that comes from sales that occur in Colorado. This changes the current approach that bases income taxation on sales, payroll and property in the state. This so-called "single sales factor," approach rewards certain kinds of companies, such as mutual fund companies, while raising taxes on 68% of Colorado businesses. It has been promoted as an economic development tool, but there is no guarantee that it will actually create more jobs. COFPI, along with representatives from AT&T, Waste Management, and other companies testified against the bill in the House Finance hearing, citing that it is not good tax policy for Colorado. Also, several of Colorado's more influential business groups were neutral on the legislation, citing that their membership is split on this issue.

HB08 1225-Business Personal Property Tax Exemption

This bill raises the personal property tax exemption to \$4,000 in actual value in property tax year 2008, \$5,500 in property tax years 2009 and 2010, and \$7,000 in property tax years 2011 and 2012. Beginning in property tax year 2013, the amount of the exemption is increased biennially by the consumer price index for the Denver-Boulder-Greeley area.

SB08 218 - Allocation of Federal Mineral Lease Revenues

Federal Mineral Lease revenue (FML) comes from royalties the state receives from the federal government for energy development on federal lands inside the state. FML revenue is expected to double over the next ten year, from \$165 million to \$332 million per year.

This bill segregates bonus from non-bonus payments and alters how the revenue is allocated. It reallocates the money from the original recipients into three new funds, the Local Government Permanent Fund (LGPF), the Higher Education Federal Mineral Lease Revenues Fund (Revenue), and the Higher Education Maintenance and Reserve Fund (Reserve).

SB08 218 diverts more than \$650 million into higher education building construction and maintenance projects that would have otherwise have gone into the State Public School Fund (SPSF) and the CWCB Construction Fund (CWCB) from the non-bonus payments. The bonus payments are split 50/50 into the LGPF and the Reserve Fund. The SPSF and the CWCB funds will still receive more than \$700 million and \$150 million, respectively, over the next ten years. In addition, it directs more than \$1 billion to communities impacted by the drilling boom.

Money in the Higher Education Federal Mineral Lease Revenues Fund will be annually appropriated by the General Assembly to directly pay for or pay the costs of financing prioritized capital construction projects on Colorado Commission on Higher Education's (CCHE) 5-year capital improvements program. The principal in Higher Education Maintenance and Reserve Fund is required to remain in the fund to serve as a rainy-day fund. The General Assembly can appropriate income and interest from this fund for prioritized controlled maintenance projects included in the CCHE's 5-year capital improvements program. If General Fund is insufficient to cover the required 4% reserve, the bill allows the General Assembly to make supplement appropriations to offset reductions in General Fund appropriations for higher education operating expenses.

ECONOMIC SELF-SUFFICIENCY

SB08 177

This legislation included a 20 percent increase in the monthly TANF cash grant, effective January 2009, with the authority to go higher delegated to the State Board of Human Services. This would raise the grant from \$356 per month for a family of three to about \$420 per month. However, even if the Board raises the grant to 30 percent, a family's income would still be below 33% of Federal Poverty Line (FPL).

HB08 1265

This bill attempts to address one part of the "Cliff Effect" experienced by families moving up the economic ladder. A 10 cent per hour raise often left many families with the loss of hundreds of dollars per month in Child Care subsidies. In many counties the "break-even" point at which earnings can cover the full cost of basic needs is above 225 percent of FPL. This bill allows counties to subsidize child care for families up to 85% of state median income. It raises the current income ceiling from 225 percent of the FPL to 309 percent.

PROCESS & TRANSPARENCY

HB08 1320 – Eliminate Cash Fund Exempt Designation.

The bill eliminated the term “cash fund exempt” and replaced it with “reappropriated funds” in the Long Bill. The intent was to better track funds transferred from one department to another. Non-transferred funds under the old “cash fund exempt” label will be referred to as “cash funds.” The new nomenclature has been applied in the recently introduced Long Bill.

HB08 1321 – Long Bill Headnote Definitions.

In response to the Governor’s vetos of certain headnotes and the subsequent override of the vetos by the General Assembly over the years, the two branches agreed to resolve this issue through legislation. The terms of the legislation are based on *Colorado General Assembly v. Owens*, 136 P.3d (Colo. 2006). The legislation defines certain headnotes in statute and defines the use of footnotes. Footnotes are restricted to legislative intent and cannot contain any provision of substantive law or require any administrative action be taken in connection with any appropriation. In addition, the General Assembly will request information through separate letters to the departments instead of through footnotes as it had in the past.

HB08 1380- Single Sales Factor

The single sales factor bill changed the method of allocating corporate income to Colorado for income tax purposes. COFPI raised questions about what types of companies benefited from the change and whether such a change would actually increase business activity in the state. While the proponents of the legislation were not able to provide answers to those questions, the legislature added two reporting provisions to help answer those questions in the future. The first provision directs the Executive Director of Revenue to request additional reporting from corporations is asked to do so by the Director of Research of the Legislative Council. This new information could be used to improve the accuracy of fiscal notes and other reports.

The second provision requires the Director of the Office of Economic Development to report of the Finance Committees on the economic impacts of the allocation and apportionment of income changes made by the Legislature.

While not a huge step, these two provisions represent an improvement in the quality and quantity of information that can be made available to policy makers prior to tax policy decision making.

SB08 128 - Eliminate Sales Tax Cap

This bill eliminates the current statutory 6.91 percent limitation on the total amount of sales or use tax that can be levied by the state, any county, and any city or county combined.

HCR08 1014-Constitutional Fiscal Reform

COFPI testified in favor of Speaker Romanoff's S.A.F.E./TABOR reform proposal, which died in the House. While HCR 1014 was a bold and innovative step in untying the constitutional knot created by conflicting provisions, COFPI believes it is only one step

towards resolving the state's fiscal challenges. This measure was amended slightly and submitted as a couple citizen's initiatives for consideration on the November 2008 ballot. Please see COFPI Fact Sheet for more information on the initiatives.

SCR08 03- Limit Change Initiative CRS & Filing Deadline

The bill establishes different standards for initiatives proposing statutory change versus constitutional amendments. It specifically changes the minimum number of petition signatures required for a constitutional change to 6% and maximum number for a statutory change to 4% of the votes cast in the previous election for governor. It requires that 8% of the minimum number of signatures for a constitutional change be gathered from residents in each of the state's congressional districts. It also prohibits repealing or amending any statutory change for five years after the law becomes effective without a two-thirds vote of each house of the General Assembly. It finally provides for more public notice and input into the process.