



COLORADO FISCAL  
POLICY INSTITUTE

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**House Finance Committee**  
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My name is Carol Hedges, and I am Senior Fiscal Analyst at the Colorado Fiscal Policy Institute. The Fiscal Policy Institute is a nonprofit, nonpartisan project of the Colorado Center on Law and Policy. We promote justice and economic security for *all* Coloradans, and are leading an effort to help resolve some of Colorado's biggest fiscal challenges. As both a resource and catalyst, the Institute works for changes in public policy through timely, credible and accessible fiscal policy analysis, education, advocacy and coalition building.

I am here today with two of my COFPI colleagues to support this package of bills that will help you, as decision makers in this most difficult time, strike a better balance on further cuts to critical state services. Colorado must take a balanced approach to closing our budget gap by utilizing both spending cuts and revenue options. We cannot simply cut our way to prosperity.

The economy has the state backed into a corner, there are no easy answers left; there is no fat left to trim. There are only sacrifices. And the discussion of sacrifices leads to the question of how to strike a better balance for our state and our people, today and in the future.

Let's be clear, there is almost nothing state government can do that will change the underlying fundamentals of the economy—the basic conditions that encourage or discourage private sector job

creation. The private sector capacity for job growth will rebound when the credit markets stabilize, public confidence returns, and the demand for private goods and services rebounds.

What state government can do, however, is make investments in the building blocks of our economy—our kids, our researchers, our roads.

The spending cuts enacted since the start of the recession have hit public services hard, and the proposed cuts for next year show no relief. Medicaid clients and providers are sharing in the sacrifice as per client spending has fallen \$887 since the beginning of the recession. K-12 students are sharing with proposed reductions of \$440 per pupil even when our per pupil spending before the recession dramatically lagged the national average. Public employees are sharing with 8 furlough days and a proposed 2.5% reduction in take home pay. Drivers are sharing as they pay increased registration fees to help keep roads safe. Seniors are sharing as they give up their Senior Property exemption. We all like the idea of getting by tightening our belts and let's be clear, there are a whole lot of belts out there with a bunch of new notches.

Is someone going to have to sacrifice if these bills pass, yes, of course. This is the idea of shared sacrifice. These revenue options will fill about 10% of the budget gap.

As you consider that balance, we ask that you consider another set of facts. Colorado boasts of being one of the best places to do business in the country. In fact, according to the Denver Chamber we have the 4<sup>th</sup> lowest business tax burden in the country and according to the Tax Foundation, the 4<sup>th</sup> lowest corporate income taxes per capita in the country. And its not just our low taxes that make Colorado an attractive place, the Forbes Magazine's index looks at factors other than taxes and still says Colorado is the 4<sup>th</sup> best state to do business. CNBC ranks us third.

And where do we rank on providing public services? Colorado ranks 48<sup>th</sup> in spending on K-12, Higher Education, Highways and 49<sup>th</sup> in Medicaid. Colorado is in the bottom 10 states in providing Food Stamps, Unemployment insurance, housing assistance, and cash assistance to those who are eligible. We spend \$1449 less per K-12 student than the national average and 50% of our 3<sup>rd</sup> and 5<sup>th</sup> graders are not “proficient in math” and over 30% of our 3<sup>rd</sup> and 5<sup>th</sup> graders are not proficient at reading. We have quality preschool slots for only a quarter of our preschoolers. Students and their families pay a higher percentage of the cost of their college education here than in 46 other states. 40% of roadways are in poor condition and 17% of our bridges are structurally deficient. And all this data is from before we entered the recession.

Is this balance? Are more cuts in public services alone the strategy that positions us best for a strong private sector recovery? The better balance lies with a public sector that invests in, rather than retreats from supporting the building blocks of a strong public sector economy even it that means sacrificing a few rankings on the tax measures. It is true that the current economic conditions dictate additional reductions in state services, that fact is undeniable. The only question left is whether those cuts will be minimized as much as possible.

Today you will hear people testify about jobs. It is an obvious choice since jobs are foremost on everyone’s mind. Everyone here today, whether representing corporations or education, human service organizations or small business understands that jobs are key. The Colorado Fiscal Policy Institute believes in the power of jobs. We understand that employment is important not just because it fuels purchasing, which is fundamental to more jobs and economic prosperity but also because a job is a primary source of self worth and economic self sufficiency.

By continuing to cut funding for the public sector, we are continuing to cut important public service jobs. Next year’s proposal calls for \$290 million to be cut from K-12 alone. This cut will certainly kill

hundreds good jobs in Colorado. That is just one example. The jobs debate is not one sided. Public sector employees are facing certain lay-offs next year. We can try to lessen the loss of these good public jobs by striking a better balance and approving these bills.

Moreover, these good public sector jobs are offering an important service to Coloradans. In fact, as the economy has faltered, demand for these public goods provided by state government is at an all time high. Our continued public service cuts are coinciding with increased need for those services. The number of students in K-12 education increased by 14,000 this school year and even more than that in the 08-09 school year. Enrollment in higher education is skyrocketing. Since the start of the recession, Coloradans using Medicaid has increased 46% and Coloradans using food stamps has jumped 26%. Coloradans receiving unemployment insurance has risen by over 90,000 people. Our air still needs to be monitored and our roads still need to be plowed. Public services are under enormous pressure.

This increased demand for services created a dilemma--as demand goes up, the resources for financing those services has gone down and is projected to go down even further. Current estimates indicate that this body will have \$1.5 billion less revenue to pay for services in 2010-11 than was budgeted for 2009-10. The debate starting today is how the Legislature will grapple with the budget dilemma---take the path that leads only to more services cuts or balance the approach by considering both sides of the ledger-revenue and spending.

Those among us today that are set to lose a tax exemption or credit are likely to say we can't afford the change or that the change may cost jobs. One thing is clear, not many people have a strong desire to pay more taxes. But there are a couple of other things we know as well. One, budget cuts cost jobs—jobs for teachers, janitors, administrative assistants, clerks, engineers, etc. This entire package of bills closes exemptions and credits valued at \$132 million, an amount that could save roughly 500 jobs. One proposal being vetted by this body would reduce jobs by 1,572. Those jobs belong to Coloradans who

would be unemployed, would spend fewer dollars in local businesses, would be less able to repay mortgages, etc. The second thing we know is that reductions in jobs from budget cuts translate to reductions in services and those services make a difference. They make a difference in how long we wait in line to get our license or our permit. They make a difference in how quickly we receive the payment, contract or settlement we are due. They make a difference in whether a first grader learns to read or do math. They make a difference in when and where the next innovation in research occurs.

In this hard time, when sacrifice is the norm, it is even more important than usual to reflect on our investments and our priorities. Wayne Gretsky is quoted as saying, when asked what made him the greatest hockey player ever to play the game, "Skate to where the puck is going, not to where it is."

Colorado needs to think about where we should be after this recession. We need to think about today's priorities in light of what we want for our future. The kids that are three today and are in need of preschool services or are in first grade struggling to read in classroom of 35 kids or in third grade and are reading at grade level don't have options. They are depending on us to give them the opportunities they need to become productive future members of their communities. As adults and businesses, we can make choices and sacrifices today that will pay dividends later. Today's kids are our future and they won't wait until the economy recovers to grow. Let's tip the scale back in their favor, just a bit, by adopting this package of modest revenue enhancements and striking a better balance for our future.

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