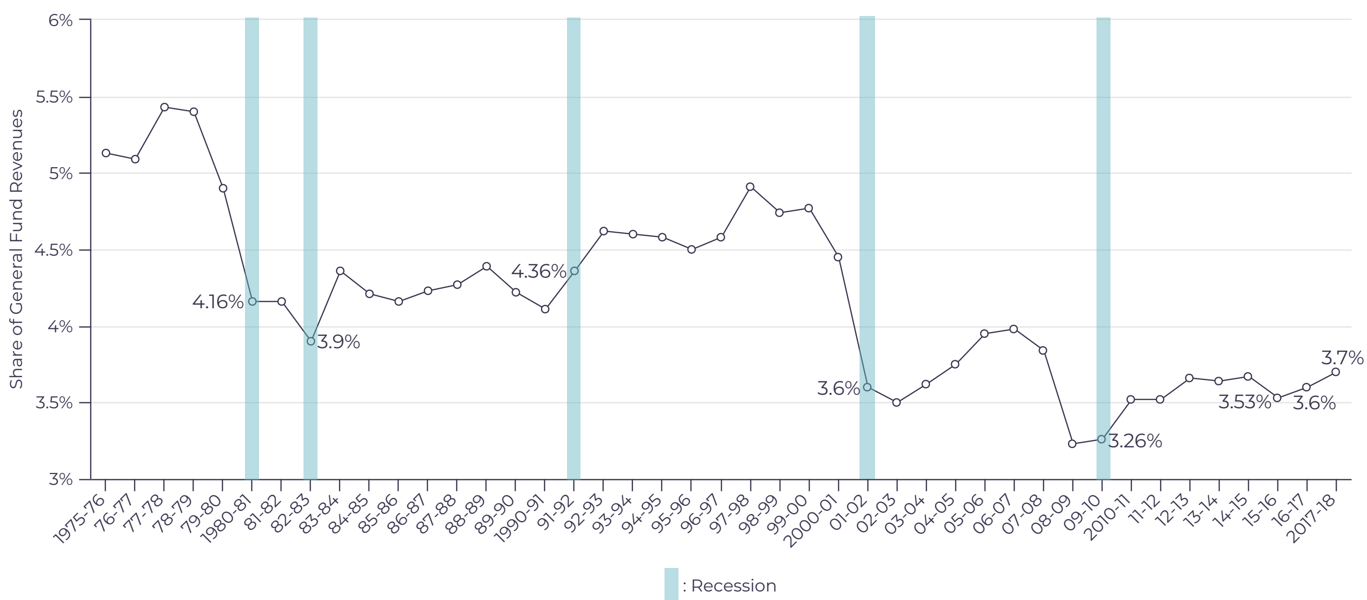
Public Investments: The Chopping Block

Investment in Colorado State Services Near Historical Low



Source: State spending/personal income data from Legislative Council Service, state recession data from Kansas City Federal Reserve Bank

As more and more low- and middle-income Coloradans face growing costs of living and stagnant incomes, it's an important time to look to public investments. Public investments play a vital role in building and maintaining infrastructure, educating residents, and reducing the costs of services putting opportunities within reach of more families. A strong public sector could make postsecondary education more affordable, expand health insurance coverage, increase access to preschool, and lower the costs of child care — all ways to lessen the squeeze many families in Colorado feel today.

Today, the share of Colorado's economy invested in public services aimed at expanding opportunity is a smaller portion than at almost any time in the past 40 years. This means Colorado's state government is less able to be the strong public sector partner our communities need.

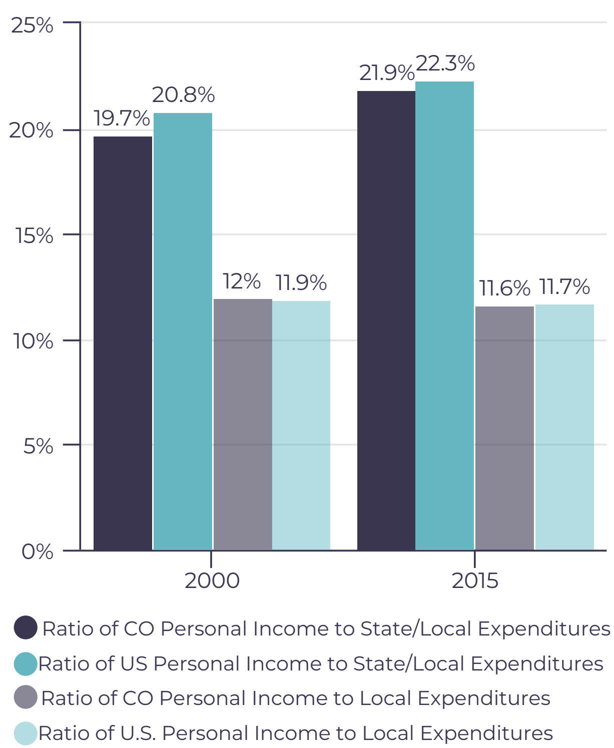
Colorado's General Fund — the account that funds most of the services promoting opportunity — is comprised of two-thirds income taxes paid by individuals and businesses, while about one-third is made up by sales taxes. When Colorado grew and the economy expanded, the total amount of money spent on state government did increase, but the amount of government revenues as a share of the economy has shrunk by about 20 percent since the 1990s.

From the mid-1970s through 2000, Colorado invested an average of 4.5 percent of the economy in state services each year (calculated as the ratio of General Fund revenues to total state personal income). The share has varied depending on the strength of the economy, but since 2000, Colorado has only invested, on average, 3.8 percent of the economy in state services.

At 3.7 percent this year, Colorado is investing almost a historically low percent of its economy in state services. This amount is only found in years when Colorado experienced a recession or the fallout of one: The share dropped to 3.9 percent in the middle of the shale oil bust and recession in 1983, then saw lows of 3.6 percent in 2002 following the dot-com crash, and 3.3 percent at the bottom of the Great Recession in 2009 and 2010. However, Colorado's current low rate of investment is not due to the effects of a recession; in fact, Colorado's economy today is one of the fastest growing in the country. General Fund revenues in 2018 and 2019 are expected to be an even smaller portion of the economy than now.

Total state and local expenditures made up about 20 percent to 24 percent of our economy in Colorado between 2000 and 2015. Nationally, that range is generally between 21 percent and 25 percent of the economy. What this shows is how Colorado spends about the same amount of our economy on local government services as the national average, meaning we aren't using local government spending to compensate for the smaller portion spent on state services compared to other states.

Total State & Local Expenditures As Share of Economy



Source: U.S. Census. State and Local Government Finance

Higher Costs for Coloradans

Colorado is a low-tax state and typically ranks low nationally in terms of state taxes per $1,000 in personal income. As a result, Colorado doesn't have a lot of revenue to spend on state services. Investing a smaller share of our economy in state services means an already lean state government has even less to work with. People all over the state feel these effects, making it harder for them to access the levers promoting opportunity.

We see the consequences most notably when it comes to education, child care, and housing. Colorado families now shoulder twice as much of the cost of tuition at public colleges and universities than they did in 2001. About 1 out of 3 4-year-old students who qualify for the Colorado Preschool Program are not served because of lack of state funding. Many Colorado school districts have cut staff, half are operating on four-day weeks, and many are forced to take further measures because state support is not keeping pace with costs. Only about 1 out of 8 children from low- and middle-income families eligible for child care assistance currently get it, partially due to a lack of state funding. At a time when many Coloradans cannot find affordable housing, our state devotes less funds for the construction of inexpensive options than most other states.

Colorado's aging population, a shrinking sales tax base, and fewer local property tax revenues going to education all put pressure on state funding. Add in the cut of state income and sales tax rates in the early 2000s, and the amount of revenues generated by state taxes has dropped considerably.

Also straining Colorado's ability to adequately invest in important services: rigid constitutional provisions. The Taxpayer Bill of Rights, or TABOR, prohibits the use of a progressive income tax and bans real estate transfer taxes and statewide property taxes. When coupled with TABOR, the Gallagher amendment makes it difficult for local governments, including school districts, to adjust their mill levies to maintain revenues from local property taxes. The inflexibility of these provisions results in inequities among school districts due to the level of local property taxes residents pay, with many in wealthier districts paying a smaller share of property values than those in poorer ones.

As policymakers attempt to break down some of the barriers limiting economic opportunity, they find they lack the tools available in other states, but we can change that.

Recommendations

Colorado should amend TABOR to allow for a progressive income tax, raise the rates on higher incomes, and cut the rates on low and middle incomes. This will increase revenues and make the tax system fairer.

Colorado should recognize the economy has changed and levy sales taxes on more services, increasing revenues and making the tax system more progressive.

Colorado should follow the 35 other states that have either eliminated or limited the subsidy paid to large retailers to collect state sales taxes.

Colorado should apply a minimum property tax rate in local school districts, which would be fairer, raise more local funds, and free up state revenues for other purposes.

Throughout the rest of this report, we'll offer more recommendations for other public investments that would benefit Colorado and its citizens.