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Reduction of the State Income Tax Rate (SB19-055)

Testimony to the Senate Finance Committee
Rich Jones, Director of Policy and Research
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Thank you for the opportunity to testify today.

I'm Rich Jones, the director of policy and research at the Bell Policy Center. The Bell Policy Center provides policymakers, advocates, and the public with reliable resources to create a practical policy agenda that promotes economic mobility for every Coloradan.

The Bell Policy Center opposes SB19-055 to permanently reduce the Colorado state income tax rate from 4.63 percent to 4.49 percent beginning in 2019 and for all subsequent years. This drastic cut in revenue will significantly limit our ability to make the kinds of investments in public systems that help people get ahead economically, such as higher education, K-12 education, child care, and affordable housing. Even though the state General Fund has grown over the years, the share of Colorado's economy invested in public services aimed at economic mobility is a smaller proportion than at almost any time in the past 40 years.

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

At the current rate of 3.7 percent, we are investing at an almost historically low rate, found only when we have either been in a recession or just coming out of one — certainly not when we have one of the fastest growing economies in the nation.

The effects of these shrinking public investments mean families find it harder to afford the things that help them get ahead. The relatively small increase in their income from the Colorado income state tax rate reduction pales in comparison to the savings stemming from the buying power associated with making public investments in the services to help families get ahead.

For example, when adjusted for inflation, our support for higher education is lower now than it was in 2000-2001, both in total funding and on a per-student basis. As a result, the share families pay for tuition has more than doubled since 2000-2001, going from 32 percent to 68 percent. The JBC staff has concluded, "Most, but not all, tuition increases in recent years are explained by declines in state support."

To make up the difference, Coloradans have taken on increasing amounts of student debt and the outstanding amount of student debt in Colorado according to the Federal Reserve Bank of New York now totals $26 billion. This limits the ability of Coloradans to buy houses, start businesses, and make other investments to help them advance economically. Plus, as our knowledge- and skill-based economy evolves, Coloradans will need more education and lifelong access to training and retraining.

At a time when 6 out of 10 Colorado families with children under the age of six have all primary care givers in the workforce, access to affordable child care is critical. Yet less than 10 percent of children from low- and middle-income families eligible for child care assistance currently receive it, partially due to a lack of state funding. About one-third of the 4-year-old students who qualify for the Colorado Preschool Program aren't served because of lack of state funding. Half of the school districts in Colorado operate on four-day weeks because state funding isn't keeping pace with costs, leaving families scrambling to find care for the fifth day.

Most acknowledge our transportation system needs significant investments to keep pace with the increased demand stemming from population growth. At a time when many Coloradans cannot find affordable housing, we devote less funds for the construction of inexpensive options than most other states.

Public investments play a vital role in building and maintaining infrastructure, educating residents, and reducing the costs of services that help put opportunities for economic mobility within the reach of more families. The drastic cuts in revenue projected under SB19-055 will make it even more difficult to help families get ahead. In fact, cuts to the Colorado state income tax rate will likely require completely cutting funding to some of these services. Colorado is already in a hole when it comes to funding necessary supports to help families achieve economic mobility. It's time to stop digging a deeper hole. We urge you to vote no on SB19-055.

If you have any questions, or if I can provide further information, please contact me at (303) 297-0456, ext. 224, or jones@bellpolicy.org.