The Bell Policy Center 2019 Ballot Guide

YES

PROPOSITION CC

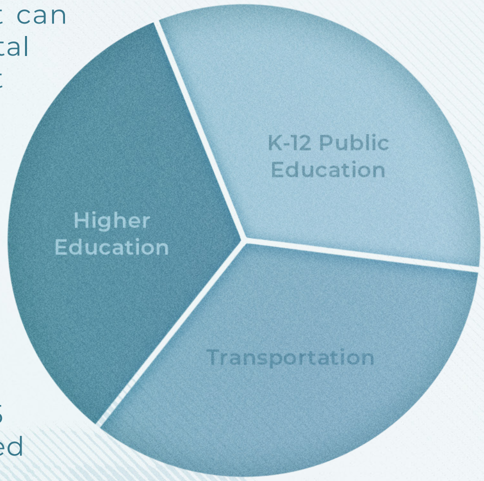
Retain Revenue for Education & Transportation

Summary

This proposition — referred to the voters by the state legislature — would permanently remove the prohibition against the state retaining and spending already-collected revenue above a certain amount. The process of removing this cap is colloquially known as “debrucing,” named for the man who included it in Colorado’s Taxpayer Bill of Rights (TABOR). The revenue cap bans state and local governments from retaining revenue that exceeds a formula-adjusted amount, regardless of how much tax revenue is collected by the current tax rates. Any money above the revenue cap in a given fiscal year is returned to taxpayers in the form of a rebate.

The proposition does not increase taxes or tax rates, but does ask voters to forgo possible future rebates so the revenue can be invested in key areas. Should Proposition CC pass, any money over the cap would be split evenly between:

- **K-12 public education:** One-third of revenue over the cap will go to public K-12 education on a per-pupil basis. It can only be used for non-recurrent expenses — think capital improvements — and cannot be part of the district reserve.
- **Higher education:** One-third of the revenue will go to higher education on a per-pupil basis and can only be used for non-recurrent expenses.
- **Transportation:** One-third of the revenue will go to the Highway Users Tax Fund. Of this revenue, 60 percent will be allocated to the state highway fund, 22 percent will go to counties, and 18 percent will go to cities and unincorporated towns. Of the money going to the state highway fund, at least 15 percent must go toward transit and transit-related improvements.



The proposition also mandates an audit by an independent entity be conducted to monitor the money spent as a result of the proposition on an annual basis.

Research

How the Revenue Cap is Calculated

The mechanism for calculating the revenue cap is outlined in the Colorado Constitution, Article X, Section 20, Subsection 7. It reads:

> *“(a) The maximum annual percentage change in state fiscal year spending equals inflation plus the percentage change in state population in the prior calendar year, adjusted for revenue changes approved by voters after 1991. Population shall be determined by annual federal census estimates and such number shall be adjusted every decade to match the federal census.”*

The formula outlined above — inflation plus population growth — was neither designed to match the budget of government nor the increased costs in government-provided services. The formula does not account for demographic shifts beyond population growth. Shifting demographics often necessitate changes in the amount and scope of public services. Younger and older Coloradans both require a larger share of services — like increased health care costs, educational services, and other targeted programs — than other groups. Looking only at overall population growth neglects what might be needed based upon Colorado's changing demographic makeup.

The TABOR formula uses the consumer price index (CPI) to account for inflation growth. Unfortunately, CPI measures changes in costs for family household goods and services, which is very different than calculating the goods and services paid for by governments. For example, the inflation for a gallon of milk or a new pair of pants isn't tied to the price of services like health care or education. CPI for the Denver metro area grew 1.6 percent between May 2018 to May 2019, while health insurance inflation grew 10.7 percent nationally from April 2018 to April 2019.

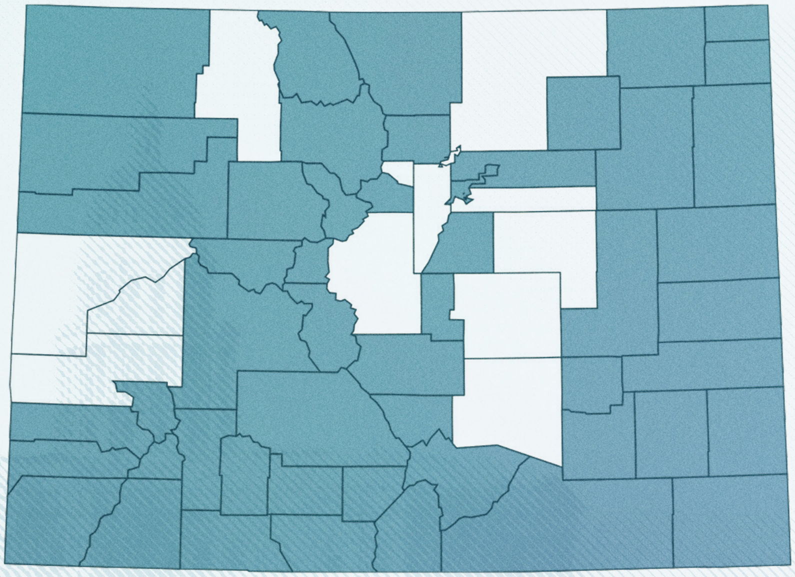
Referendum C

The revenue cap has been temporarily lifted before through the ballot. In 2005, Colorado voters approved Referendum C, which resulted in a five-year timeout from the cap, as the state recovered from the recession of the early 2000s. The calculation of future revenue caps — growth plus CPI — was adjusted based upon the highest point of revenue during the five-year timeout. That highest point of revenue within the 2005-2010 timeframe became the new baseline for calculating the revenue cap. Without Referendum C, Coloradans would have lost over $2 billion in government services. Instead, because of Referendum C, state services were able to recover from recessionary cuts and revenue increased alongside Colorado's economy. Between FY 2005 and FY 2006, the Colorado budget grew 8 percent (adjusted for inflation), which is higher than any year between 1990 and 2017.

Already-Debruced Governments

Debrucing at local levels of government has proven to be popular. Because TABOR applies to all governmental bodies — the state, counties, cities, school boards, and special districts — each entity must ask for permission from voters to invest all the money it collects and remove or raise the revenue cap. As of 2019, 51 out of the 64 counties in the state, 230 out of the 274 municipalities in Colorado, and 174 school districts have fully or partially debruced since TABOR's inception in 1992.

Debruced Colorado Counties



*Blue denotes a debruced county
Source: Information from Colorado Counties, Inc

TABOR Rebates

Removing the revenue cap at the state level would allow the state government to invest all collected revenue starting in FY 2020. From FY 1996-1997 through FY 2000-2001, Colorado residents received rebates. These rebates averaged $200, with high-income earners receiving a much larger rebate than middle- and low-income earners. If the state was able to retain the rebates in those years, the state would have had more than $3.37 billion for programs and services for every community in Colorado. There was one more rebate in Colorado history, FY 2004-2005, which averaged $15 per taxpayer and totaled $40.36 million for the state.

The design and mechanisms for rebates are determined by the legislature and have changed over time, averaging from $15 to $269 per taxpayer. At times, rebates have been used to further policy objectives, such as paying the Earned Income Tax Credit (EITC) or providing rebates for capital gains taxes and purchasing pollution control equipment. The current rebate law has three categories:

- **Senior Homestead and Disabled Veteran Property Tax Exemption:**
  When a rebate is triggered, the first people to receive a rebate are individuals eligible for the Senior Homestead and Disabled Veteran Property Tax Exemption. Once this exemption has been paid, the next level is triggered.
- **Temporary Income Tax Rate Reduction:**
  If there is enough revenue to provide a rebate to all Coloradans, an income tax rebate lowers the income tax rate from 4.63 percent to 4.5 percent for the following year only. This one-year reduction has never happened before, but it is projected to occur for this upcoming tax year, which is not affected by Proposition CC. If there is money left over after the property tax exemption, but not enough for a full tax rate reduction, then the revenue is rebated using only a sales tax refund instead.
- **Sales Tax Rebate:**
  All taxpayers are eligible for this rebate. The amount of the rebate is done in tiers, depending on income levels. So, wealthy Coloradans — those making more than $225,000 per year — see a larger rebate than those who earn less, all the way down the income ladder.

While economic forecasts can shift, the nonpartisan Legislative Council staff has forecasted the revenue over the cap for fiscal years 2019-20, 2020-21, 2021-22. Only FY 2019-20 is projected to lead to refunds via a sales tax rebate. Fiscal years 2020-21 and 2021-22 will have revenue over the cap, but there is not projected to be enough revenue to trigger sales tax refunds or income tax rate reductions. The revenues in those years would go to local governments to cover the Senior Homestead and Disabled Veteran Property Tax Exemption. Overall, the state is projected to have $541.7 million combined over three years to spend on education and transportation if voters pass Proposition CC:

Projected TABOR Rebates for Tax Year 2020

Gross Income	Projected Rebates Single Filers	Projected Rebates Joint Filers
<$41,000	$20	$40
$41,000-87,000	$27	$54
$87,000-136,000	$32	$64
$136,000-184,000	$36	$72
$184,000-230,000	$39	$78
>$230,000	$62	$124
Total Revenues Above Revenue Cap		**$264.3 million**

Total Revenues Above Revenue Cap for Tax Year 2021	**$142.9 million**

Total Revenues Above Revenue Cap for Tax Year 2022	**$134.5 million**

All figures courtesy of Legislative Council

Arguments in Favor

- The state of Colorado should be able to retain and invest all the tax revenue it receives. Colorado is already a low-tax state and limiting investment in our communities hurts the economy across Colorado. Proposition CC would allow for critical investments in the underfunded areas of K-12 education, higher education, and transportation without raising taxes.
- Colorado has an IOU of nearly $600 million for K-12 education, a backlog of $9 billion in transportation needs throughout the state, and a higher education system where tuition is the bulk of revenue schools receive. This has caused great inequities in the state, and revenue from Proposition CC will help close those funding gaps.
- Allowing the state to retain the tax revenues it gets will allow public investment to keep pace with economic growth. Without Proposition CC, economic growth does not allow the state to make investments in areas such as education and transportation because of the outdated budget formula that puts a cap on revenues. Proposition CC will remove that cap and allow the state to direct funding to education and transportation in times of growth to help all Coloradans.
- Voters across Colorado have approved similar measures in counties, cities, and other districts. 51 out of the 64 counties in the state, 230 out of the 274 municipalities in Colorado, and 174 school districts, have all, at least partially, debruced since TABOR's inception in 1992. Because the formula for the revenue cap does not allow budgets to grow with the needs of governments, there is a broad understanding that being able to spend all revenue the state collects is beneficial to communities.
- Proposition CC is the best way to increase revenue — without raising taxes — for important programs that benefit all Colorado communities.

Proponents: Speaker KC Becker, Colorado Hospital Association, Colorado Chamber of Commerce, Denver Metro Chamber of Commerce, Colorado Contractors Association, Colorado Community Colleges System, Colorado Municipal League, Colorado Counties Incorporated, Counties and Communities Acting Together, Colorado Association of School Boards, Denver Public Schools, Colorado Parent Teacher Association, Great Education Colorado, Colorado Fiscal Institute

Arguments Against

- Colorado state budgets are growing. Money is not a problem and the state legislature should better prioritize important spending to satisfy the need for more spending so Coloradans can still receive their rebates.
- TABOR has kept government spending in check and led to a prosperous economy in Colorado. This is just an attempt to chip away at a successful aspect of our constitution. Lawmakers have already increased spending by finding and exploiting loopholes within the current system.

Opponents: Douglas Bruce, Americans for Prosperity, Colorado Rising Action, Independence Institute, former Governor Bill Owens, House Minority Leader Patrick Neville

The Bell's Recommendation

The Bell Policy strongly recommends **YES on Proposition CC**. Colorado needs to make critical investments in our future and ensure we have the schools, transportation networks, and research institutions necessary for a vibrant economy. Discretionary spending available for these investments has not kept up with Colorado's growth and changing economy.

Colorado is in the bottom quartile in the country when it comes to K-12 per-pupil spending, not to mention education funding is $573 million short each year of the level voters approved in 2000. We have significant transportation needs and state funding for higher education is nearly half of what it was at the beginning of the millennium. By not raising taxes and investing already collected revenue, Proposition CC is the least we can do to make critical investments in our communities and keep Colorado competitive for years to come.