

*The Common Sense Policy Roundtable is  
a non-partisan informational resource for  
public policy makers and future leaders.  
CSPR researches and promotes common sense  
solutions for economic issues in Colorado.*

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1. General Fund revenues increased by over 10% in 2006, and around 8% in 2007. Source: Charles S. Brown and Jeffrey A. Roberts, "Colorado's Budget Tsunami," University of Denver, Center for Colorado's Economic Future, Jun. 2009
2. Ibid
3. NCSL, "State Budget Update: 2009"
4. Natalie Mullis, "Focus Colorado: Economic and Revenue Forecast," Colorado Legislative Council, Jun. 21, 2010
5. Charles S. Brown and Jeffrey A. Roberts, "Colorado's Budget Tsunami," University of Denver, Center for Colorado's Economic Future, Jun. 2009
6. Elizabeth Burger, "Cost Savings Associated with Eliminating Medicaid and CHP+ Expansions," Colorado Legislative Council, Feb. 23, 2010
7. Elizabeth Burger, "Medicaid Eligibility Increases and Caseload Expansions," Colorado Legislative Council, November 12, 2009
8. Ibid
9. Edmund Haislmaier, "Expanding Medicaid: The Real Cost to the States," The Heritage Foundation, January 14, 2010, No. 2757
10. Appropriations Report, Joint Budget Committee, FY 2010-2011
11. Jason Schrock and Natalie Mullis, Analysis of HB 06-1163, Apr. 2, 2009
12. \* - Includes employees of the state's colleges and universities
13. Appropriations Report, Joint Budget Committee, FY 2009-2010
14. A. Kane and J. Ferrugia, "Thousands Hired Despite Freeze," Channel 7, Nov. 3, 2009
15. Kerry White, "History of State Payroll Growth," Colorado Legislative Council, Dec. 22, 2009
16. Tim Hoover, "State Jobs Pay 6% More," Denver Post, Jun. 9, 2009
17. Ed Sealover, "Colorado State Employees Make Pitch for Pay", Denver Business Journal, Jun. 22, 2009
18. \* - Includes employees of the state's colleges and universities
19. C. Ward, Legislative Council research request, Oct. 6, 2009

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## COLORADO'S FISCAL POLICY

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### **2006-2010: *Kicking the can down the road***

Colorado has faced a near perpetual budget crisis since 2000, despite dramatic cumulative increases in government revenue in recent years<sup>1</sup>. Additionally, the approval of Referendum C in 2005 allowed the state to keep an estimated \$3.5 billion in additional General Fund revenue.<sup>2</sup>

When the recession began in Fall 2008, legislators faced an abrupt budget reality. Rather than making tough choices on spending, policymakers relied largely on tax hikes, fee increases, and other one-time sources of money (such as federal stimulus dollars and state trust funds and reserves) to close the state budget gap. In fact, one-time cash transfers accounted for about 82% of the proposed fiscal year 2010 “budget balancing package”.<sup>3</sup>

As a result, policymakers will face a cumulative two-year budget gap of nearly \$1 billion when the General Assembly reconvenes next year.<sup>4</sup>

### **Health Care Spending: *Growing on Autopilot, Crowding Out Other Priorities***

- ⊗ Ten years ago, education, prisons, and health care consumed about 54 cents of every General Fund dollar. By 2009 that figure had grown to 76 cents, and that figure is projected to grow to 91 cents in five years if spending trends continue.<sup>5</sup>
- ⊗ Medicaid eligibility has been expanded more than a dozen times since 2001.<sup>6</sup> This has increased total Medicaid caseload in Colorado from around 275,000 people a decade ago to nearly 500,000 in 2009<sup>7</sup> and more than doubled the state's portion of Medicaid spending.<sup>8</sup>
- ⊗ The recently approved federal health care bill could cost Colorado as much as \$850 million in expanded Medicaid obligations over six years.<sup>9</sup>
- ⊗ The rapid growth in these programs creates tough choices, putting Colorado's infrastructure and world class higher education system of at risk.
- ⊗ In 2009, transportation spending was effectively removed from the state's general fund, and state general fund support for higher education shrunk from nearly \$750 million in 2007 to \$428 million in 2009<sup>10</sup> — a reduction of more than 40%.

## State Government: *Making Matters Worse*

- ⊗ Legislators rejected efforts in 2006 to establish a “rainy day fund” for use during lean budget years. Had proposed legislation designed to create the fund been approved at that time, the fund would have contained an emergency reserve of some \$2.1 billion in 2009.<sup>11</sup>
- ⊗ Legislators repealed the state’s decades-old spending limit in 2009, which had limited annual spending growth on General Fund programs to no more than 6% above the prior year.
- ⊗ Despite record job losses in Colorado’s private sector, the number of state employees<sup>12</sup> rose from around 48,000 in 2006 to 52,430 in 2009.<sup>13</sup>
- ⊗ Some 2,300 new state workers alone were hired during a so-called government hiring freeze.<sup>14</sup>
- ⊗ Average annual compensation for state workers has ballooned to nearly \$70,000 per year<sup>15</sup>, and one recent analysis found that state workers make as much as 16% more than their counterparts in local governments or the private sector.<sup>16</sup>
- ⊗ An executive order issued in 2007 unionized state government workers. Just two years later — during the height of the state budget crisis — the newly created union was actively lobbying state lawmakers for even higher state salaries financed by numerous increases in sales taxes.<sup>17</sup>
- ⊗ Personnel compensation has steadily risen as a percentage of overall state spending since 2006, after dropping as a percentage of overall expenditures between 2000 and 2006. This growth in the state’s personnel costs has diverted dollars away from roads and schools.
- ⊗ In all, more than 1,100 state employees<sup>18</sup> each earned more than \$125,000 in 2009.<sup>19</sup>

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*“Create a pro-business tax environment to increase revenues, make government operations more efficient and keep health care spending in check.”*

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## The Way Forward

- ✘ **RESTORE FISCAL RESTRAINT.** Reinstate the hard limit on state General Fund spending, establish a “Rainy Day” fund for future recessions, and introduce zero-based budgeting.
- ✘ **PERSONNEL REFORM.** Bring state salaries into line with the private sector, make it easier for policymakers to dismiss or reduce the compensation of inefficient and incompetent employees, and reduce total payroll costs as a percentage of overall state spending.
- ✘ **ENTITLEMENT REFORM.** Require the approval of a legislative supermajority or state voters for any proposed expansion of existing entitlement programs, or the creation of any new ones. Improve means testing by seeking federal approval to re-impose a minimum asset test for Medicaid participants, and give policymakers the flexibility to adjust eligibility levels consistently with budget constraints. Review recent entitlement expansions that have resulted in a redistribution of state funds away from higher education and infrastructure and toward more social spending.
- ✘ **ENHANCE REVENUES THROUGH TAX REFORM.** Tax reforms are needed to ensure a pro-growth environment for Colorado businesses. In addition to phasing out the Business Personal Property Tax, policymakers should revisit a number of sales tax hikes that have increased costs for a number of strategic industries. Since 2009 alone, legislators have raised taxes on vehicles, investment, E-commerce, software, agricultural compounds, and energy used for manufacturing. Repealing these tax hikes will help these sectors to expand, create jobs, and subsequently generate additional tax revenue for the state.
- ✘ **REVENUE RECOVERY STRATEGY.** As the economy recovers, and revenues to the state with it, dedicate new state dollars to areas that have been cut — namely, higher education and infrastructure expansion and improvement.
- ✘ **CONSOLIDATION OF STATE AGENCIES, OFFICES, BOARDS AND COMMISSIONS.** Many of these bodies serve duplicate or overlapping purposes and do little more than reproduce functions that could easily be handled by existing state departments. These bodies sap state resources in the form of salaries, staff time, travel allowances, reporting requirements, per diems, and budgets.
- ✘ **PRIVATIZATION OF NON-ESSENTIAL STATE FUNCTIONS.** A top to bottom review of state services must be conducted to identify functions currently performed by government that could be practically and cost-effectively outsourced to the private sector.