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1801 Broadway, Suite 280, Denver Colorado 80202
303.297.0456 voice; 303.297.0460 fax

Repeal the Arveschoug-Bird 6 Percent Limit

**Testimony to the Senate Finance Committee
The Bell Policy Center • February 17, 2009**

The Bell Policy Center is a nonpartisan public policy center and advocacy organization. I am speaking today in support of SB 09-228, to repeal the Arveschoug-Bird 6 percent limit on General Fund appropriations and increase the legislature's flexibility to appropriate state revenues.

The Bell has been studying state fiscal policy since 2001, when we began researching the impacts of the Taxpayer's Bill of Rights (TABOR). This work intensified with the economic downturn and the historic decline in state revenues during the first half of this decade.

Throughout this period, we and others have consistently pointed to the Arveschoug-Bird 6 percent limit as a major impediment to budget flexibility.

The problems associated with this limit compound throughout the economic cycle. When the economy is expanding it limits the ability to keep pace with growing needs. By permanently locking in any spending reductions below 6 percent, it presents a disincentive for the General Assembly to appropriate General Fund revenues to a rainy day fund. Rather than putting funds aside during good economic times it directs money to transportation and capital construction projects.

As a result, we do not have a reserve sufficient to cushion against cuts during economic downturns. This was particularly true during the downturn in 2001-2003 when we had to make up the shortfall by tapping cash funds, other reserve funds and cutting hundreds of millions of dollars from critical services. The worst cuts could have been avoided – as they were in many other states – had we had a more adequate reserve fund to fall back on.

But the most drastic effect of the limit occurs when the economy recovers from a downturn. Few dispute the need to make cuts in bad economic times to bring spending in

balance with reduced revenues. However, because the 6 percent limit on General Fund spending is calculated based on the previous year's General Fund appropriations it locks future appropriations into this level of recessionary spending. Over \$1 billion of cuts from the 2001-2003 recession have been locked into current spending limits. Current projections show that future General Fund appropriations will be reduced by as much as \$1.2 billion based on the cuts the legislature must make this year and next.

The 6 percent limit does not restrict the amount the legislature can spend. It only restricts how the dollars can be spent. We think it makes more sense to give the legislature the authority to set budget priorities and to have the flexibility to respond to the unique circumstances facing the state rather than being constrained by rigid formulas.

We understand there is concern about transportation, an area that we acknowledge needs additional funding. However, rather than relying on a rigid formula that results in a boom and bust cycle for transportation funding, we think giving the legislature the authority to consider transportation funding along with the other areas of state government makes more sense. The General Assembly would retain authority to direct General Funds to transportation. It just would have to make an affirmative decision rather than rely on an automatic transfer based on a rigid formula. Under this approach it would be possible for the General Assembly to direct funds for transportation during economic downturns when it would receive no funding under the Arveschoug-Bird formula.

We agree with the legal analysis that because the General Assembly spends all the revenues above the 6 percent limit, it is not a spending limit as contemplated in TABOR. Rather, it dictates how General Fund revenues can be spent not how much can be spent. As a result the General Assembly can act to repeal this statutory formula and we urge it to do so.

We face serious challenges in meeting the needs of Colorado during this severe economic downturn. However, the Arveschoug-Bird 6 percent limit will lock these recessionary spending levels into future budgets and significantly restrict our ability to recover from this recession. Now is the time to put Colorado on sound fiscal footing and prepare for the economic recovery. SB09-228 is a significant step to reaching that goal and we strongly urge your support.

Thank you. I would be happy to answer any questions.