



The Bell Policy Center

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Repeal the Arveschoug-Bird Formula Testimony before the House Transportation and Energy Committee The Bell Policy Center • April 23, 2009

My name is Wade Buchanan and I am president of the Bell Policy Center. The Bell is a nonpartisan public policy research and advocacy organization. I am speaking today in support of SB 09-228, to repeal the Arveschoug-Bird 6 percent formula and increase the legislature's flexibility to appropriate General Fund revenues.

The Bell has been studying state fiscal policy since 2001 – work that 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 formula as a major impediment to making wise budget decisions.

The problems associated with this formula compound throughout the economic cycle. When the economy expands, it prevents operating budgets from keeping pace with growing needs. And by permanently locking in any spending reductions below 6 percent, it has been a strong disincentive to increasing the General Fund reserve. As a result, our reserve is consistently too small to effectively cushion against cuts during economic downturns.

In the midst of the tough choices you have had to make to balance next year's budget, it is important to remember that we have been here before. During the downturn in 2001-2003, we made up the shortfall by tapping cash funds and by 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 formula occurred when the economy began to recover. Because the 6 percent formula is based on the previous year's General Fund appropriations, it locks future appropriations into this level of recessionary spending. This ratchet permanently locked more than \$1 billion in cuts from the 2001-2003 recession into current spending levels.

And we are doing it again. Using current projections, we estimate that General Fund appropriations in fiscal year 2012-13 will be reduced by another \$1.6 billion based on the cuts the legislature must make for fiscal years 2008-09 through 2010-11. In other words,

the interaction of two recessions with the Arveschoug-Bird 6 percent formula is likely to ratchet down the appropriations authority for General Fund operating budgets by a total of more than \$2.5 billion *in just one decade*.

We think it makes more sense for sitting legislators to set budget priorities and to respond to the unique circumstances facing the state rather than being constrained by such a rigid formula. The 2009-10 budget should be based on our priorities today, not the priorities of your predecessors almost 20 years ago.

Our priorities today should include more consistent and predictable support for the state's transportation and capital infrastructure. That is why the Bell participated in recent discussions, convened by the Governor, with business and transportation interests. And it is why we enthusiastically endorse the amendment you will be considering as a result of those discussions.

We also strongly support gradually increasing the statutory reserve by half a percentage point each year – a change that will pay huge dividends the next time we face an economic downturn.

We agree that the Arveschoug-Bird formula is not a spending limit as contemplated by TABOR. It does not restrict the amount the legislature can spend. It does not save the state one penny. It dictates only how General Fund revenues can be spent, not how much can be spent. 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 formula 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 a more sound fiscal footing and prepare for the economic recovery. SB09-228 is a significant step toward that goal, and we strongly urge your support.

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