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The Bell Policy Center

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Pay-As-You-Go Requirements

House Bill 12-1039

**Rich Jones, Director of Policy and Research
Testimony to the House Finance Committee
February 8, 2012**

Thank you for the opportunity to speak with you today.

I am Rich Jones, the director of policy and research with the Bell Policy Center. The Bell is a non-partisan, non-profit research and advocacy organization dedicated to making Colorado a state of opportunity for all. We have worked on state fiscal issues for nearly a decade because we know having an effective public sector partner is essential to building the state of opportunity we envision.

The Bell Policy Center supports HB 12-1039 to require all bills that create a new tax credit or exemption or expand an existing tax credit or exemption show how they would be paid for with offsetting budget cuts or increases in revenues.

We believe in fact-based decision making and that policymakers are most effective when they have a solid understanding of the goals for the public policies being advocated and the costs associated with them.

It is equally important for the public to have reliable and easily accessible information so they can weigh the costs and benefits and draw their own conclusions about the policies being put forth. Doing so makes public policy more transparent and accountable for the general public.

The legislature enacts tax credits and exemptions as a means of accomplishing specific public policy goals. In many cases tax credits and exemptions have been and continue to be an effective mechanism for implementing public policy. There are a number on the books in Colorado today that we believe to be sound and vital, and there are some that make the overall effect of taxation in Colorado less regressive.

However, unlike spending decisions, which are carefully scrutinized and reviewed by the governor's budget office and legislature's Joint Budget Committee every year, there is limited review of tax exemptions and credits. For the most part, we enact them and then forget about

them. Yet they account for more than one-quarter of our General Fund revenue and are paid for “off the top,” before we fund any other aspect of state government.¹

Therefore, it is particularly important before we create new or expand existing tax credits and exemptions that we do a thorough job in calculating the amount of revenue the state will give up as a result of the proposals, describing how the credits will achieve their intended objectives and determining how any reductions in revenue will affect funding for existing public services and systems.

In some cases, the benefits derived from a tax credit might outweigh the spending that would need to be cut to fund it. In other instances current spending might be more valuable. Either way, making this information available to lawmakers and the public improves the decision-making process, increases transparency and forces policymakers to consider priorities.

Because the legislature does not regularly go back and review the costs and effectiveness of existing tax credits and exemptions, it is critical that we do so at the front end, before new ones are created or existing ones expanded.

Although the December revenue forecast shows that state revenues are growing, Colorado still faces a projected shortfall of \$472 million for fiscal year 2012-13. We are expected to raise about \$7.6 billion in total General Fund tax revenues in fiscal year 2012-13.² The total value of all existing tax credits and exemptions is estimated to equal about \$2 billion a year, or about 26 percent of General Fund revenue. Any new or expanded tax credits and exemptions will add to this shortfall unless paid for with spending cuts or revenue increases.

We think it is common sense that before we add to our shortfall we at least discuss the value of new or expanded tax credits and how we will pay for them.

¹ [SB 11-184](#) adopted last session requires the Department of Revenue to prepare a biannual tax profile and expenditure report by January 1, 2013 and January 1, 2015. Provided there are sufficient appropriations, the department will prepare this report every two years thereafter. The report will describe every tax expenditure, estimate the impact of each on state revenues and for tax expenditures relating to state income tax only, the effect of each on various income classes.

² [The Colorado Economy and State Budget](#), Colorado Fiscal Policy Institute, Budget Works 2012, Natalie Mullis, Chief Economist, Colorado Legislative Council, January 13, 2012.