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Reinstating 6 percent limit on General Fund appropriations

House Bill 12-1075

Testimony to the House Finance Committee
Wade Buchanan, President
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My name is Wade Buchanan and I am president of the Bell Policy Center. The Bell Policy Center is a non-partisan public policy research and advocacy organization committed to making Colorado a state of opportunity for all. I am speaking today in opposition to HB 12-1075, which would reinstate the 6 percent annual growth formula for General Fund appropriations.

We have the unusual benefit of knowing exactly how this formula will work, because it was law in Colorado from 1991 through 2009, when the legislature repealed it. It was known as the Arveschoug-Bird formula, and our experience with it over nearly two decades provides ample evidence that this bill is a very bad idea.

Over those years we went through several complete economic cycles, and in our judgment this rigid formula resulted in worse public policy outcomes at every stage of the cycle than would otherwise have been the case.

In recessions and periods of slow growth, when state revenues lagged, it permanently ratcheted down spending on schools, colleges, health care and the other critical public systems. It did this because the growth formula was based on the previous year's spending, and if that spending didn't increase by the full 6 percent in a given year, the limit in all future years was permanently ratcheted downward by the difference.

In periods of recovery, when revenues often showed their greatest growth, the formula placed an arbitrary brake on the ability of our public systems to recover to pre-recession levels. Again, we are talking about our schools and colleges and health care and courts, whose recovery therefore lagged significantly behind the rest of the economy. This was the case particularly in 2005-08, despite Referendum C, precisely because of this formula.

The best analogy is to a reservoir that cannot be replenished in a drought. Once the drought ends, we expect to refill the reservoir. But if this formula applied to water policy, we could not take advantage of increased precipitation and would have to leave the reservoir at drought levels.

Finally, after recoveries, when the economy ideally experiences sustained growth, the formula created a strong incentive for legislatures to spend the entire 6 percent, whether it was needed or not, because otherwise they would have further limited their ability to spend more in the future if necessary.

This is not speculation. This is Colorado's experience. We know exactly how this formula will work – slowing recoveries, creating an incentive to spend more than may be necessary in good times, over time ratcheting down the size of the General Fund as a proportion of the economy, and permanently downsizing our schools and colleges and other key public systems.

These effects compound over time and through economic cycles. To illustrate this, we applied this same formula to Colorado's overall economy, as measured by total state personal income, since 1980 – a three decade period that has seen four full economic cycles of varying intensity.

During this time, the state's economy, as measured by total state personal income, has grown from \$31 billion in 1980 to \$213 billion in 2010 (the last year for which we have data). That's almost a seven-fold increase. The average annual rate of growth for the economy over the period was just below 7 percent.

If we had applied a 6 percent annual growth limit to the economy over that period, today's economy would be \$179 billion, almost 17 percent below its current level. And if we added in the ratchet effect, meaning that the growth rate is capped at 6 percent but would be lower in recessionary years, then today's economy would be \$133 billion – 37 percent below its current level. That was the size of our economy in 1999 – 12 years and two economic cycles ago, when Colorado had 823,000 fewer residents and each of those dollars was worth 12 percent more than today due to inflation.

What this means is that the formula in HB 1075, as we know from our experience, will result in a persistent and permanent downsizing of General Fund appropriations. Now this only makes sense if one believes that the things the General Fund pays for – public schools, colleges and universities, health care for poor working families, services for children and the developmentally disabled, our courts and prisons – should not grow in pace with the economy. In fact, one must believe that these items should necessarily and always grow significantly slower than the rest of the economy to embrace this formula.

We believe consigning our colleges and schools and other public systems to a permanent and deepening state of recession is very dangerous and will, in the end, damage our families, our children, our workforce and our ability to compete.

Arveschoug-Bird is one of several rigid formulas we put in place over the years that severely limited the ability of you as our elected officials to make budget decisions based on the needs and priorities of the time. What we have learned is that budgeting by rigid, one-size-fits-every-year formulas does not work.

The Bell has long supported creating a robust rainy-day fund for Colorado to help smooth out economic ups and downs. We also support finding more resources for transportation and capital construction. But reinstating this failed formula is not the way to accomplish those goals.

We urge you to oppose HB12-1075. It didn't work the first time we had it, and it won't work any better as a retread.

Thank you for the opportunity to testify today.