

**Amendment 51**  
**State Sales Tax Increase for Services for People with Developmental Disabilities**

1     **Amendment 51 proposes amending the Colorado statutes to:**

- 2             ◆ increase the state sales and use tax from 2.9 percent to 3.0 percent on  
3                 July 1, 2009, and from 3.0 percent to 3.1 percent on July 1, 2010;
- 4             ◆ direct that the new money be used to pay for services for people with  
5                 developmental disabilities and to help eliminate the waiting lists for  
6                 services;
- 7             ◆ prohibit the legislature from reducing the current level of state funding  
8                 for services for people with developmental disabilities;
- 9             ◆ exempt the new money from state spending limits.

10    **Summary and Analysis**

11            ***Developmental disabilities.*** Developmental disabilities include a number of  
12            different conditions that affect a person's physical or mental abilities, such as  
13            speaking, moving, learning, and independent living. Developmental disabilities can  
14            become apparent at anytime up to age 22 and last throughout a person's lifetime.  
15            Mental retardation, autism, Down syndrome, and cerebral palsy are examples of  
16            developmental disabilities.

17            ***Services for people with developmental disabilities.*** Services for people with  
18            developmental disabilities are delivered through a state and local system. The state  
19            administers the overall system; twenty local nonprofit agencies throughout the state  
20            determine a person's eligibility and arrange and provide services. Services are  
21            generally provided in the community or in the family home, and vary based upon the  
22            person's specific disability and needs. For instance, one person may need assistance  
23            with speech and language development, another may need job training to become  
24            employed, and another may need full-time care.

25            Currently, the state provides funding for about 11,800 people to receive services in  
26            the community. This year, the state's share of funding is about \$184 million.  
27            Additional money for services is also provided by the federal government, local  
28            governments, grants, donations, and fees paid by individuals receiving services. Total  
29            funding for services for people with developmental disabilities is estimated at about  
30            \$400 million annually.

31            ***Waiting lists for services.*** There are currently about 9,700 adults and children  
32            on waiting lists for services within the next two years. That number is expected to  
33            grow to over 12,000 people by 2012. If funding to eliminate the waiting lists becomes  
34            available, a number of people who are not currently on a waiting list may seek

1 services as services become more accessible. Thus, it is difficult to estimate the total  
 2 number of people who are eligible for services and the cost to eliminate the waiting  
 3 lists.

4 **Sales and use tax.** The state sales tax is paid on the purchase price of most  
 5 items. Some items are exempt, such as food bought at grocery stores, prescription  
 6 drugs, household electricity and heat, and gasoline. The tax applies to some services,  
 7 most notably local telephone service, cell phone service, food and drink service at  
 8 restaurants and bars, and lodging. The state use tax is paid on items on which the  
 9 sales tax was not collected, such as items bought from sellers outside of the state. In  
 10 addition to the state, local governments also have sales and use taxes, although they  
 11 may apply to different items than the state tax.

12 **Amount of tax increase.** The current state sales and use tax rate is 2.9 percent.  
 13 When combined with local government sales taxes, the total tax rate varies across the  
 14 state. For example, the total tax rate in the City of Denver is 7.72 percent, in  
 15 Fort Collins it is 6.7 percent, in Fort Morgan it is 5.9 percent, in Pueblo it is  
 16 7.4 percent, and it is 7.65 percent in Grand Junction.

17 Amendment 51 raises the state tax rate to 3.1 percent over two years. On July 1,  
 18 2009, the rate increases to 3 percent, and on July 1, 2010, and thereafter the rate is  
 19 3.1 percent. The measure is estimated to raise about \$89 million in the first year of  
 20 the tax increase and \$186 million in the next year when the tax increase is fully in  
 21 place. Table 1 provides examples of how Amendment 51 affects state sales taxes.

22 **Table 1. Comparison of State Sales Taxes Due under Current Law**  
 23 **and Amendment 51**

24 Price	25 Total Tax Increase	26 Current State Sales Tax	27 State Sales Tax in 1st Year of Increase	28 State Sales Tax in 2nd Year of Increase
29 \$20	4 cents	58 cents	60 cents	62 cents
\$100	20 cents	\$2.90	\$3.00	\$3.10
\$5,000	\$10.00	\$145.00	\$150.00	\$155.00

30 **Use of the new money for services.** Amendment 51 requires that all of the new  
 31 sales tax money be used for services for people with developmental disabilities to help  
 32 reduce the current waiting lists. The money cannot be used for state administration  
 33 costs or to reduce current state spending on services. However, in any year in which  
 34 two-thirds of the state legislature and the governor declare a state fiscal emergency,  
 35 the money can be used for any purpose relating to services for people with  
 36 developmental disabilities, such as replacing the current level of spending on services  
 37 and for state administration costs. In addition, Amendment 51 creates a reserve for  
 38 any money that is not spent in a given year for use in future years. Finally, a large  
 39 portion of the new money can be used to leverage additional federal funds, increasing  
 40 the total amount available to pay for services.

1        **How Colorado's taxes compare with other states.** Colorado has the lowest  
2 state sales tax rate of the 45 states with a state sales tax. However, Colorado has  
3 higher local government sales tax rates than most states. Thus, when comparing  
4 combined state and local sales taxes, Colorado ranks higher. Colorado ranks 17th in  
5 the amount of sales taxes paid per person and 23rd in the amount paid based on  
6 wealth. Colorado's total state and local taxes, including income, property, sales, and  
7 other taxes, rank 26th in the amount paid per person and 46th based on wealth.

8        **Arguments For**

9            1) Many children and adults with developmental disabilities — and the families who  
10 care for them — are at the point of crisis because they cannot get needed services.  
11 The wait time for services can last as long as ten years. The demand for services  
12 continues to grow because people with developmental disabilities are vulnerable and  
13 often need life-long care, and there are many aging parents who can no longer care  
14 for their children with developmental disabilities. The need for services is so great that  
15 it cannot be met without a new source of funding unless the state cuts money from  
16 other programs.

17            2) By spending money now, the state can reduce future costs of government  
18 services. For example, the new sales tax will provide money to expand early  
19 intervention programs for children, such as speech-language or physical therapy, and  
20 programs that help train and employ adults with developmental disabilities, which may  
21 reduce future reliance on government-funded services.

22            3) A sales tax of one penny per \$5 purchase is a small investment for the large  
23 return of improving the health, safety, and quality of life for people with developmental  
24 disabilities. Furthermore, the tax applies to only a limited number of services, and  
25 does not apply to many basic necessities. The money raised from the new sales tax  
26 directly benefits people with developmental disabilities, and does not pay for state  
27 administrative overhead.

28        **Arguments Against**

29            1) Raising sales taxes may hurt the state's economy and citizens. The economy is  
30 already struggling with a weak housing market and high gas and food prices. Further,  
31 raising sales taxes burdens lower- and middle-income consumers the most because it  
32 cuts into a larger share of their income. Instead of requiring everyone to pay higher  
33 taxes, people who wish to help individuals with developmental disabilities can make  
34 private donations.

35            2) Reducing the waiting lists could be accomplished without raising taxes by  
36 reprioritizing how the state spends its money and by eliminating government  
37 inefficiencies. The state government already spends about 30 percent of state and  
38 federal operating dollars to provide health-care-related services, and this spending  
39 grows every year. The measure takes \$186 million out of the private economy to  
40 expand the size and cost of government. This money could be better used by  
41 Colorado's citizens and businesses to spend on their own needs and to help grow the  
42 economy.

1           3) Decisions about how to spend state tax dollars are best made through a  
2 deliberative process that considers the needs and priorities of the entire state.  
3 Amendment \_ permanently raises taxes without any discussion about whether the  
4 measure raises an appropriate amount of money, how the new money can be spent  
5 most effectively, or how the needs of people with developmental disabilities compare  
6 with other needs in the state. The new money must be spent on services for people  
7 with developmental disabilities even if the amount raised exceeds what is legitimately  
8 needed to provide services, which could lead to wasteful spending while other needs  
9 remain underfunded.

## 10       **Estimate of Fiscal Impact**

11           **State revenue.** The sales tax increase raises about \$89 million in budget year  
12 2010 and about \$186 million in budget year 2011 to provide services for people with  
13 developmental disabilities.

14           **State spending.** Amendment 51 increases state spending to oversee the  
15 program by about \$170,000 in budget year 2010 and by a similar amount in following  
16 years. The increase in state costs is the result of a rise in the number of people with  
17 developmental disabilities receiving services. These costs cannot be paid from the  
18 new money.

19           The providers of services will also experience additional costs. These costs will be  
20 for both providing the actual services to more people and for startup and training  
21 expenses to help accommodate the increase in services provided. It is assumed that  
22 the state legislature will use the new sales tax money to pay for these costs.

23           In addition to state spending for program oversight, the state will incur a cost of  
24 \$100,000 in both budget years 2009 and 2010 for computer programming changes to  
25 track the new revenue and to notify businesses of the change in the tax rate.

26           **Impact on taxpayers.** Both individuals and businesses pay sales and use taxes.  
27 Businesses pay about 40 percent of the state's sales taxes; Colorado residents pay  
28 about half; and the remaining amount is paid by visitors to the state. The additional  
29 amount of taxes paid by each Colorado household will depend on a household's  
30 income and number of people. A three-person household with around \$55,000 in  
31 annual income is estimated to pay an additional \$20 in state sales taxes in the first  
32 year of the tax increase and an additional \$40 in the second year when the tax  
33 increase is fully in place.