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## Referendum C — State Spending

1 Referendum C is an amendment to the *Colorado Revised Statutes* that:

- 2 • permits the state to spend the money it collects over its limit for the next  
3 five years on health care, public education, transportation projects, and  
4 local fire and police pensions;
- 5 • eliminates, for the next five years, refunds that taxpayers receive when the  
6 state collects more than it is allowed to spend, and reduces these refunds  
7 thereafter;
- 8 • uses the highest amount of money the state collects in any year during the  
9 next five years to calculate allowable state spending THEREAFTER; and
- 10 • caps annual increases in the new state spending amount at inflation plus  
11 population growth, beginning in 2011.

### 12 **Background**

13 ***How does the constitution limit state spending?*** A constitutional provision  
14 commonly known as TABOR limits the amount of money the state may spend each year.  
15 It limits the annual increase for some state revenue to inflation plus the percentage change  
16 in state population. Any money collected above this limit is refunded to taxpayers, unless  
17 the voters allow the state to spend it. Referendum C asks voters if the state may spend ~~the~~  
18 money it collects above the limit ON HEALTH CARE, PUBLIC EDUCATION, TRANSPORTATION  
19 PROJECTS, AND LOCAL FIRE AND POLICE PENSIONS.

20 ***What money is included within the limit?*** The constitutional spending limit applies  
21 to about 60 percent of the money collected by the state, including income taxes, sales taxes,  
22 fees, fines, and interest earnings. Money received from the federal government, enterprises,  
23 lawsuits, and gifts is not covered by the spending limit AND IS NOT INCLUDED IN THIS  
24 ANALYSIS.

25 ***How has the spending limit worked?*** Between 1997 and 2001, the state collected  
26 money above the spending limit. For instance, in 2001, the state was allowed to spend \$7.9  
27 billion, but \$8.9 billion was collected. The difference of about \$1.0 billion was refunded to  
28 taxpayers.

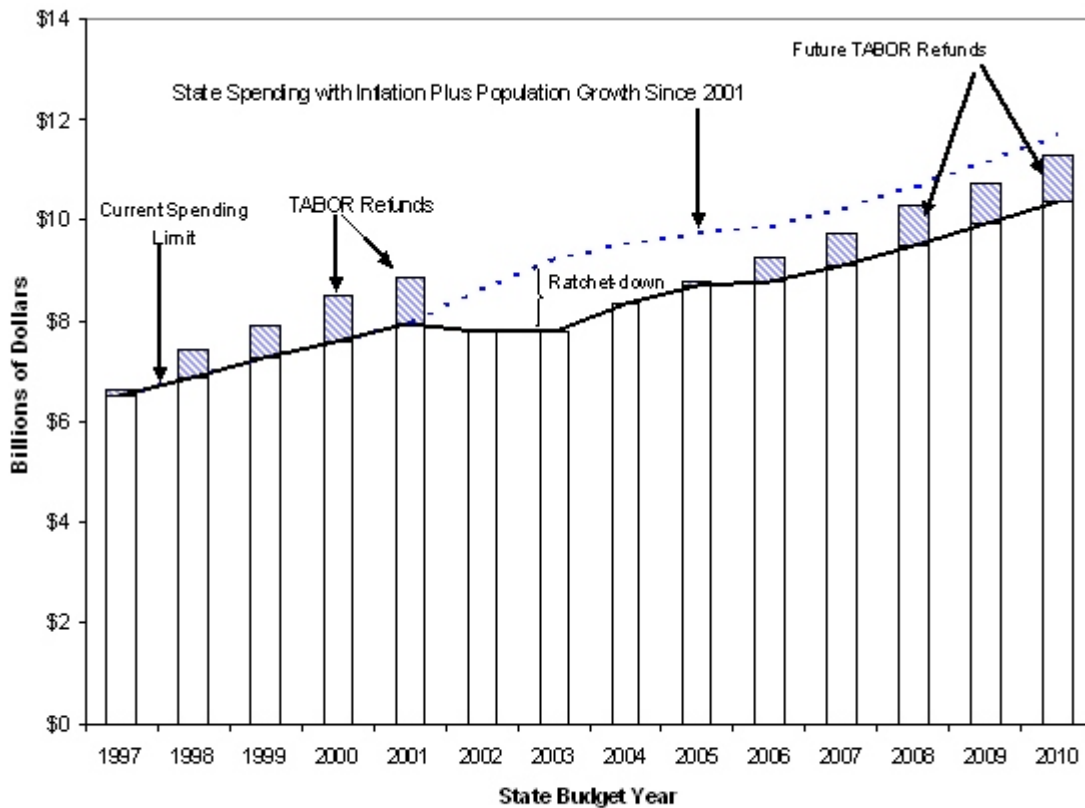
29 When the state collects less money than the spending limit allows, there are no  
30 refunds. The next year's limit is calculated from the amount of money actually collected in  
31 the prior year. For example, the state experienced a recession during 2001 and the amount  
32 of money collected in 2002 was \$7.8 billion, while inflation plus population growth would  
33 have allowed spending of \$8.1 billion. The next year's limit grew from the \$7.8 billion, not

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1 the \$8.1 billion. This lowering of spending is known as the "ratchet-down" effect. The  
2 amount the state can spend under TABOR is now permanently below what it would have  
3 been BE if no recession had occurred and spending had grown by inflation plus population  
4 each year.

5 Figure 1 shows how the spending limit has operated and is projected to operate from  
6 1997 through 2010. The solid line is the state spending limit, the dotted line shows what  
7 state spending would have been with inflation plus population growth, and the shaded areas  
8 represent refunds. Beginning in 2006, the shaded area is the money that Referendum C is  
9 asking voters to allow the state to spend.

10 **Figure 1**  
11 **State Spending Limits LIMIT and Refunds**




12 **How does Referendum C change state spending?** Referendum C has three major  
13 provisions. First, it allows the state to keep the money it collects above the limit for five  
14 years, BEGINNING ON JULY 1, 2005, and to spend it on:


- 15 • transportation projects;

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- 1 • health care for low-income, disabled, and elderly Coloradans;
- 2 • health insurance premiums for individuals and small businesses;
- 3 • preschool through twelfth grade public education;
- 4 • community colleges and other public institutions of higher education;
- 5 and
- 6 • local fire and police pensions.




7 Legislative economists estimate that Referendum C ~~will~~ **ALLOWS** the state to increase  
8 spending by about \$3.741 billion during the five-year period. The exact amount of the  
9 spending increase could be higher or lower, depending on the economy and the amount of  
10 money collected. Legislative staff is required to prepare an annual report detailing how the  
11 money is spent.



12 Second, beginning in 2011, Referendum C creates a new state spending cap equal to  
13 the highest amount of money ~~collected~~ **THE STATE COLLECTS** in any year between 2006 and  
14 2010. This ~~cap~~ **DOLLAR AMOUNT is allowed to INCREASES** annually by inflation plus  
15 population growth. This provision in Referendum C prevents future drops in the state  
16 spending limit. All money collected above the new cap will be refunded to taxpayers.



17 Third, Referendum C allows the state to spend an additional \$100 million ~~per~~ **EACH**  
18 year if Referendum D passes. This change, **WHICH** begins in 2011, ~~and it~~ reduces refunds  
19 **EACH YEAR BY THE AMOUNT OF ADDITIONAL SPENDING. by the same amount each year. The**  
20 ~~additional~~ **THIS** money may be used to repay debt permitted by Referendum D. Referendum  
21 D allows the state to borrow up to \$2.1 billion to be used for transportation, capital projects  
22 in public education facilities, and local fire and police pensions. Referendum D ~~takes~~ **CAN**  
23 **ONLY TAKE** effect ~~only~~ if Referendum C passes.



24 ***What happens to the money if Referendum C fails?*** If Referendum C fails, the  
25 money the state collects above its spending limit will be refunded to taxpayers. The  
26 legislature, with approval of the governor, determines how the money is refunded. There are  
27 currently 16 methods to refund money. One of the methods is the sales tax refund, which  
28 almost all taxpayers receive. The sales tax refund accounts for about 42 percent of all  
29 TABOR refunds and is distributed based on income levels. Taxpayers are expected to  
30 receive **A TOTAL OF BETWEEN \$350 AND \$1,021 OVER THE NEXT FIVE YEARS, OR an average**  
31 **of \$491 in sales tax refunds. over the next five years;** Figure 2 shows the estimated sales tax  
32 refund for a taxpayer in the highest and lowest income levels, and the average sales tax  
33 refund for all taxpayers from 2007 through 2011.

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1 **Figure 2**  
2 **Estimated Sales Tax Refunds Per Taxpayer UNDER CURRENT LAW**

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4 <b>Income Level</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Five-Year Total</b>
5 Lowest	\$35	\$53	\$88	\$79	\$95	\$350
6 Highest	\$102	\$154	\$258	\$231	\$276	\$1,021
7 Average	\$49	\$74	\$124	\$111	\$133	\$491

8 Examples of the remaining 15 refunds include a reduction in vehicle registration fees,  
9 a rebate for local property taxes paid by businesses, and ~~a credit for child care expenses~~  
10 CREDIT FOR LOW-INCOME INDIVIDUALS. The total refund a taxpayer receives is the sales tax  
11 refund plus any of the other refund methods for which a taxpayer qualifies. Not all refund  
12 methods are available every year; the methods available depend on the amount of money  
13 being refunded. While the sales tax refund was distributed to almost 2.8 million taxpayers  
14 in 2001, most of the other 15 methods were distributed to a much smaller number of  
15 taxpayers. The appendix contains more information on the refund methods.

16 ***Does Referendum C impact annual income tax refunds?*** A taxpayer receives a  
17 state income tax refund when the taxpayer pays more in state income taxes than he or she  
18 owes. Income tax refunds are not affected by Referendum C.

19 ***What are other impacts of Referendum C?*** Under current law, low-income families  
20 receive an income tax credit for child care expenses when the state collects money above the  
21 limit. Passage of Referendum C eliminates this child care tax credit for at least five years.  
22 In addition, beginning in 2011, a new TABOR refund method is created that reduces the  
23 state income tax rate from 4.63 percent to 4.50 percent. The tax rate reduction takes effect  
24 in years in which the state collects enough money above the limit to pay for it. It reduces the  
25 amount of money refunded through other methods.

## 26 **Arguments For**

27 1) Referendum C provides money for critical investments in Colorado's future:  
28 improving the safety of roads and schools, providing ~~better~~ ADDITIONAL health care for  
29 Colorado families, and supplying an educated workforce for Colorado businesses. These  
30 investments ~~are necessary to~~ WILL HELP generate new jobs and retain existing jobs in the  
31 state. Based on income, Colorado ranks among the bottom ten states for funding K-12 and  
32 higher education. In addition, 39 percent of Colorado's roads and highways are in poor  
33 condition. Repairing highways now is cheaper than replacing them later.

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1           2) Referendum C allows the state to recover from economic downturns while  
2 preserving the right of citizens to vote on all future tax increases. Under current limits, the  
3 state can never fully recover from an economic downturn. In the past few years, the state  
4 has added students and prisoners, and experienced more traffic congestion while TABOR  
5 revenue fell. Even if Referendum C passes, the state will be spending less in the future than  
6 inflation and population growth would have allowed since 2001. After five years, the state  
7 will once again have the strictest spending limit in the nation.

8           3) Without raising taxes, Referendum C provides the state with money to fund  
9 programs and services that were cut during the recent recession. The money will be  
10 generated from job growth, increased sales, higher salaries, and tourism spending. Colorado  
11 will still be a low tax state. Without Referendum C, the state will have to reduce funding  
12 for items such as higher education, programs that assist seniors like the senior homestead  
13 exemption, and programs that benefit low-income families and the disabled.

## 14 Arguments Against

15           1) Referendum C is effectively a tax increase. It eliminates TABOR refunds for five  
16 years and reduces them each year thereafter. The state will spend roughly \$3.741 billion that  
17 could be better used by Colorado's citizens and businesses. This reduction in private  
18 spending could dampen the economic recovery that began in 2003, making the state a less  
19 desirable place for business relocation. NOT ONLY ARE TAXPAYERS GIVING UP THEIR SALES  
20 TAX REFUND, THEY ARE ALSO GIVING UP 15 OTHER REFUNDS, SUCH AS A CHILD CARE CREDIT,  
21 LOWER MOTOR VEHICLE FEES, AND CAPITAL GAINS CREDITS, WHICH AVERAGE \$1,105 PER  
22 TAXPAYER OVER THE NEXT FIVE YEARS. ~~When the \$3.741 billion is divided by the number~~  
23 ~~of Colorado taxpayers, it amounts to \$1,163 per taxpayer over five years.~~

24           2) Referendum C allows state spending to expand without being specific about the  
25 programs for which the money will be spent. The broad spending categories outlined in  
26 Referendum C cover 83 percent of state government. The new money could replace current  
27 spending on health care and public schools, essentially allowing the money to be spent for  
28 any purpose. The legislature can change the spending priorities anytime after the election.  
29 In addition, suspending the TABOR limit might lead to increases in fees and charges during  
30 the next five years because there is no limit on state spending and no requirement ~~for voter~~  
31 ~~approval.~~ THAT THESE INCREASES BE APPROVED BY VOTERS approval.

32           3) The perceived budget shortfall could be handled in other ways. TABOR allows  
33 government growth at inflation plus population, but it does not ~~require~~ GUARANTEE it. ~~It is~~  
34 ~~acceptable for government to grow at a slower rate~~ GOVERNMENT GROWTH AT A SLOWER  
35 RATE IS ACCEPTABLE AND COULD ENCOURAGE GREATER PRODUCTIVITY AND EFFICIENCY.  
36 Since TABOR passed in 1992, state spending has increased each year. Rather than spending  
37 more, the state could save money by eliminating inefficiencies, consolidating government

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1 functions, privatizing certain services, and reforming the state purchasing system. ~~Slower~~  
2 ~~growth could encourage greater government productivity and efficiency.~~

### 3 Estimate of Fiscal Impact



4 **State impacts.** Referendum C is estimated to increase state spending by \$3.741  
5 billion over the next five years. Figure 3 summarizes the estimated ADDITIONAL annual  
6 revenue the state can spend IF ~~under~~ Referendum C PASSES.

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**Figure 3**

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**Estimated Increase in State Spending from Referendum C**

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<b>State Budget Year:</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>TOTAL</b>
State Spending Increase Under Referendum C	\$507 million	\$653 million	\$836 million	\$823 million	\$923 million	\$3.741 billion
Additional Spending as a Percentage of Total Spending Capped by TABOR	6.0%	7.4%	8.9%	8.4%	9.0%	8.0%

15 Beginning in 2011, Referendum C is estimated to increase state spending by \$923  
16 million, plus annual increases for inflation and population growth. If Referendum D passes,  
17 the state will also be allowed to spend an additional \$100 million each year beginning in  
18 2011.

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## REFERENDUM C APPENDIX TABOR Refund Methods and Amounts Distributed in 2001

3 The following table lists the refund methods available when the state collects money  
4 above its spending limit. For 2001, the last year refunds were issued, the table displays the  
5 average amount refunded per taxpayer and the number of taxpayers claiming each refund.

Sales Tax Refund		
Federal Adjusted Gross Income Group (income tiers in 2001)	Estimated Number of Taxpayers in 2001	Average Amount Per Taxpayer in 2001
Less than \$26,000	949,357	\$144
\$26,001 to \$53,000	816,139	\$187
\$53,001 to \$78,000	474,271	\$220
\$78,001 to \$103,000	248,190	\$252
\$103,001 to \$126,000	112,248	\$283
More than \$126,000	196,482	\$451
<b>Total Sales Tax Refund</b>	<b>2,796,687</b>	<b>\$206</b>
Other TABOR Refund Methods (listed in the order available)		
	Number of Taxpayers Claiming Refund in 2001	Average Amount Per Taxpayer in 2001
Earned income credit	210,942	\$156
Foster care	431	\$487
Business personal property tax /A	77,726	\$1,291
Capital gains for CO assets purchased before 5/9/94	9,296	\$5,433
Child care credits	194,924	\$131
Research and development	/B	/B
Lower motor vehicle registration fees C/	4,006,000	\$7
High technology scholarship program	38	\$88
Pollution control equipment	0	\$0
Contribution to telecommunication education	/B	/B
Trucks at 0.01 percent sales tax rate	/D	/D
Interest, dividends, and capital gains	1,055,713	\$42
Agriculture cooperative tax credit	237	\$2,138
Health benefit plans	6,442	\$376
Capital gains for CO assets purchased after 5/9/94	5,967	\$4,636

/A 42,651 taxpayers received less than \$200 each, while 250 taxpayers received more than \$40,588 each.

/B New method that was not available in 2001

/C Estimated average refund per vehicle registration

/D Data not available