Blue Book

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

Amendment 51 proposes amending the Colorado statutes to:

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

Summary and Analysis

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

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

Current funding allows about 11,800 people to receive services in the community. This year, federal, state, and local government funding for services is estimated at $372 million. The state's share of that total is about $184 million.

Waiting lists for services. There are currently about 9,700 adults and children on waiting lists for services within the next two years. That number is expected to grow to over 12,000 people by 2012. If funding to eliminate the waiting lists becomes available, a number of people who are not currently on a waiting list may seek services as services become more accessible. Thus, it is difficult to estimate the total number of people who are eligible for services and the cost to eliminate the waiting lists.

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

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

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

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

Price	Total Tax Increase	Current State Sales Tax	State Sales Tax in 1st Year of Increase	State Sales Tax in 2nd Year of Increase
$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

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

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

Arguments For

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

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

3) A sales tax of one penny per $5 purchase is a small investment for the large return of providing basic services and improving the quality of life for people with developmental disabilities, such as autism, cerebral palsy, Down syndrome, or mental retardation. Furthermore, the tax applies to only a limited number of services, and does not apply to many basic necessities. The money raised from the new sales tax directly benefits people with developmental disabilities, and does not pay for state administrative overhead.

Arguments Against

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

2) Reducing the waiting lists could be accomplished without raising taxes by reprioritizing how the state spends its money and by eliminating government

inefficiencies. The state government already spends about $4 billion, or about 30 percent of state and federal operating dollars, to provide health-care-related services, and this spending grows every year. The measure takes $186 million out of the private economy to expand the size and cost of government. This money could be better used by Colorado's citizens and businesses to spend on their own needs and to help grow the economy.

3) Decisions about how to spend state tax dollars are best made through an open and deliberative process that considers the needs and priorities of the entire state. Amendment 51 permanently raises taxes without any discussion about whether the measure raises an appropriate amount of money, how the new money can be spent most effectively, or how the needs of people with developmental disabilities compare with other needs in the state. The new money must be spent on services for people with developmental disabilities even if the amount raised exceeds what is legitimately needed to provide services, which could lead to wasteful spending while other needs remain underfunded.

Estimate of Fiscal Impact

State revenue. The sales tax increase raises about $89 million in budget year 2010 and about $186 million in budget year 2011 to provide services for people with developmental disabilities. The state is also expected to receive about $19 million in 2010 and about $39 million in 2011 from the federal government to fund these services.

State spending. Amendment 51 increases state administrative costs by about $100,000 in 2009, $315,000 in 2010, and $430,000 in 2011 to oversee the services provided to people with developmental disabilities and to implement the sales tax increase. These costs cannot be paid from the new sales tax money, but a portion will be paid with funding from the federal government.

The nonprofit agencies that provide services will experience additional costs of around $46 million in 2010 and $94 million in 2011. These costs include both providing the actual services to more people and startup and training expenses to accommodate the increase in services provided. The new sales tax money is expected to pay for some of these costs, with the remainder funded by the federal government. It is unlikely that all of the new sales tax money will be spent in the first several years because developing the capacity to serve the number of people who are on waiting lists will take time. Any sales tax money that is not immediately spent on services must be placed in reserve.

Impact on taxpayers. Both individuals and businesses pay sales and use taxes. Businesses pay about 40 percent of the state's sales taxes; Colorado residents pay about half; and the remaining 10 percent is paid by visitors to the state. The additional amount of taxes paid by each Colorado household will depend on a household's income and number of people. A three-person household with around $55,000 in annual income is estimated to pay an additional $20 in state sales taxes in the first year of the tax increase and an additional $40 in the second year when the tax increase is fully in place.

State Spending and Tax Increases

The state constitution requires that the following fiscal information be provided when a tax increase question is on the ballot:

1. the estimated or actual state spending under the constitutional spending limit for the current year and each of the past four years with the overall percentage and dollar change; and
2. for the first full fiscal year of the proposed tax increase, an estimate of the maximum dollar amount of the tax increase and of state fiscal year spending without the increase.

Table 2 shows the dollar amount of state spending under the constitutional spending limit.

Table 2. State Spending

	Actual 2005	Actual 2006	Actual 2007	Estimated 2008	Estimated 2009
State Spending	$8.314 billion	$8.045 billion	$8.334 billion	$8.836 billion	$9.168 billion
Four-Year Dollar Change in State Spending: $854 million					
Four-Year Percent Change in State Spending: 10.3 Percent					

The numbers in Table 2 show state spending from 2005 through 2008 for programs that were subject to the constitutional spending limit during those years. However, the constitution allows a program that operates similar to a private business to become exempt from the limit if it meets certain conditions. Because some programs have done this during the last five years, the numbers in Table 2 are not directly comparable to each other. Furthermore, Referendum C, which was passed by voters in 2005, allows the state to spend money above the limit that it otherwise would have refunded to taxpayers. If the numbers are adjusted to account for both of these factors, the four-year dollar change is $2.413 billion and the four-year percent change is 30.4 percent.

Table 3 shows the revenue expected from the increased sales and use taxes, state fiscal year spending without these taxes for 2011, the first full fiscal year for which the increase would be in place, and the sum of the two.

Table 3. State Fiscal Year Spending and the Proposed Tax Increase

	2011 Estimate
State Spending Without New Taxes	$10,156.1 million
New Sales and Use Tax Increase	$186.1 million
State Spending Plus the New Taxes	$10,342.2 million

* The new sales and use tax revenue is not subject to the state's fiscal year spending limits.