

**Initiative #128**  
**State Sales Tax Increase for Services for People with Developmental Disabilities**

1 **Amendment \_ 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 provide services to people with  
5       developmental disabilities and to help eliminate the waiting lists for  
6       services;
- 7       ♦ prohibit the legislature from using the new money for program  
8       administration or to reduce the current level of state funding for services  
9       for people with developmental disabilities;
- 10       ♦ if a state fiscal emergency is declared, expand the allowable uses of the  
11       new money, as long as the money is spent on services for people  
12       developmental disabilities; and
- 13       ♦ exempt the new money from state spending limits.

14 **Summary and Analysis**

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

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

29       Currently, the state provides funding for about 12,400 people to receive services in  
30       the community. This year, the state budget for services is about \$183 million.  
31       Additional money for services is also provided through federal funding, local funding,  
32       grants, donations, and fees paid by individuals receiving services.

1 **Waiting lists for services.** Current funding for services for people with  
 2 developmental disabilities does not meet the demand, which has led to waiting lists for  
 3 both adults and children. There are currently about 9,400 people on waiting lists who  
 4 need services within the next two years. That number is expected to grow to over  
 5 12,000 people by 2012 at the current level of funding.

6 **Costs to eliminate waiting lists.** The state estimates that Colorado would have  
 7 to spend \$135 million annually to provide services to everyone on the waiting lists.  
 8 However, a number of people who are not currently on a waiting list may seek  
 9 services as the wait time decreases and services become more accessible. Thus, it is  
 10 difficult to estimate the total cost to eliminate the waiting lists for services.

11 **Sales and use tax.** The state sales tax is applied to the price paid on most items,  
 12 however some items are exempt, such as food bought at grocery stores, prescription  
 13 drugs, and gas. The tax applies to a limited number of services, most notably local  
 14 telephone services, cell phone service, food and drink service at restaurants and bars,  
 15 and lodging. The state use tax is applied to items on which the sales tax was not  
 16 collected. In addition to the state, local governments also have sales and use taxes,  
 17 although they may apply to different items than the state tax.

18 **Amount of tax increase.** The current state sales and use tax rate is 2.9 percent.  
 19 When combined with local government sales taxes, the total tax rate varies across the  
 20 state. For example, the total tax rate in the City of Denver is 7.72 percent, in  
 21 Fort Collins it is 6.7 percent, in Limon it is 6.9 percent, and it is 7.65 percent in  
 22 Grand Junction.

23 This measure raises the state tax rate to 3.1 percent over a two-year time period.  
 24 On July 1, 2009, the rate increases to 3 percent, and on July 1, 2010, and thereafter  
 25 the rate is 3.1 percent. Table 1 shows the state sales tax due on varying prices of  
 26 items and the increased amount due at the higher tax rate. The measure is estimated  
 27 to raise about \$186 million in the first year that the tax increase is fully in place.

28 **Table 1: Comparison of State Sales Taxes Due under Current Law**  
 29 **and the Measure**

Price of Item(s)	Current State Sales Tax	State Sales Tax in 1st Year of Increase	State Sales Tax in 2nd Year of Increase	Total Tax Increase
\$20	58 cents	60 cents	62 cents	4 cents
\$100	\$2.90	\$3.00	\$3.10	20 cents
\$5,000	\$145.00	\$150.00	\$155.00	\$10.00

37 **How Colorado's sales tax compares with other states.** Colorado has the  
 38 lowest state tax rate of the 45 states with a state sales tax. However, Colorado has  
 39 higher local government sales tax rates than many states. Thus, when comparing  
 40 combined state and local sales taxes, Colorado ranks higher. According to the most  
 41 recent information available, Colorado ranks 15th in the amount of sales taxes paid  
 42 per person, while it ranks 26th in the amount paid based on income. Colorado's total

1 state and local taxes, including income, property, sales, and other taxes, rank 46th  
2 based on income and 27th in the amount paid per person.

3  
4 ***Funding for services for people with developmental disabilities using the***  
5 ***money from the tax increase.*** The measure requires that all of the new money be  
6 used for services for people with developmental disabilities to help reduce the current  
7 waiting lists. The money cannot be used for administration costs. Also, the state  
8 cannot lower the current amount it spends on services; the new money must be used  
9 to add to current spending. However, when two-thirds of the state legislature and the  
10 governor declare a state fiscal emergency, the money can be used for any purpose  
11 relating to services for people with developmental disabilities, such as replacing the  
12 current level of spending on services and for administration costs. Finally, as  
13 spending for services increases, the state may be eligible for additional money from  
14 the federal government, increasing the total amount available to pay for services.

## 15 **Arguments For**

16 1) Many people with developmental disabilities — and the families who care for  
17 them — are at the point of crisis due to the lack of available services. The wait time  
18 for services can last as long as ten years. The demand for services continues to grow  
19 because people with developmental disabilities often need life-long care, and there are  
20 many aging parents who can no longer care for their children with developmental  
21 disabilities. The need for services is so great that it cannot be met without a new  
22 source of funding unless the state cuts money from other programs.

23 2) By spending money now, the state can reduce future costs of government  
24 services. The new sales tax will place children in early intervention programs, such as  
25 speech-language or physical therapy, which can lessen or eliminate the need for  
26 future services. The new tax also benefits adults through programs that help train and  
27 employ people with developmental disabilities. Job-coaching and job-placements can  
28 also lessen the future reliance on government-funded services.

29 3) A sales tax of one penny per \$5 purchase is a small investment for the large  
30 return of improving the quality of life for people with developmental disabilities.  
31 Furthermore, the tax applies to a limited number of services and does not include  
32 groceries, prescription drugs, or gas. The money raised from the new sales tax will  
33 directly benefit people with developmental disabilities, and is not intended for use for  
34 administrative overhead.

## 35 **Arguments Against**

36 1) Raising sales taxes may hurt the state's economy and citizens. The state's  
37 economy is already struggling with a weak housing market and high gas and food  
38 prices. Further, raising sales taxes burdens lower- and middle-income consumers the  
39 most because it cuts into a larger share of their income. The measure takes  
40 \$186 million out of the private economy that could be better used by Colorado's  
41 citizens and businesses. In addition, increasing taxes to fund more services for  
42 developmental disabilities makes it more likely that other groups will ask the  
43 government for assistance, causing an ever-rising tax burden.

1           2) Providing additional services for people with developmental disabilities could be  
2 accomplished without raising taxes by reprioritizing how the state spends its money  
3 and by eliminating government inefficiencies. In addition, instead of forcing everyone  
4 to fund services by paying higher taxes, people who wish to help individuals with  
5 developmental disabilities can make private donations.

6           3) The sales tax increase is larger than what is needed to eliminate the current  
7 waiting list for services, placing an unnecessarily high tax burden on taxpayers. Also,  
8 the measure will force additional costs on the state budget to administer new services.  
9 Even though the sales tax increase will likely raise enough to cover the costs of both  
10 services and administration, the new money cannot be used for administrative costs.

11       **Estimate of Fiscal Impact**