

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 state program
8 administration or to reduce the current level of state funding for services
9 for people with developmental disabilities;
- 10 ♦ expand the allowable uses of the new money if a state fiscal emergency
11 is declared, as long as the money is spent on services for people with
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 training to become
28 employed, and another may need full-time care.

29 Currently, the state provides funding for about 11,800 people to receive services in
30 the community. This year, the state budget for services is about \$184 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.** There are currently about 9,700 adults and children
 2 on waiting lists for services within the next two years. That number is expected to
 3 grow to over 12,000 people by 2012. If funding to eliminate the waiting lists becomes
 4 available, a number of people who are not currently on a waiting list may seek
 5 services as the wait time decreases and services become more accessible. Thus, it is
 6 difficult to estimate the total number of people who need services and the cost to
 7 eliminate the waiting lists.

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

16 **Amount of tax increase.** The current state sales and use tax rate is 2.9 percent.
 17 When combined with local government sales taxes, the total tax rate varies across the
 18 state. For example, the total tax rate in the City of Denver is 7.72 percent, in
 19 Fort Collins it is 6.7 percent, in Fort Morgan it is 5.9 percent, in Pueblo it is
 20 7.4 percent, and it is 7.65 percent in Grand Junction.

21 Amendment _ raises the state tax rate to 3.1 percent over two years. On July 1,
 22 2009, the rate increases to 3 percent, and on July 1, 2010, and thereafter the rate is
 23 3.1 percent. The measure is estimated to raise about \$89 million in the first year of
 24 the tax increase and \$186 million in the next year when the tax increase is fully in
 25 place. Table 1 shows the state sales tax due now on varying prices of items and the
 26 increased amount due at the higher tax rate.

27 **Table 1: Comparison of State Sales Taxes Due under Current Law**
 28 **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

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

1 **Use of the new money for services.** Amendment _ requires that all of the new
2 money be used for services for people with developmental disabilities to help reduce
3 the current waiting lists. The money cannot be used for state administration costs or
4 to reduce current state spending on services. However, in any year in which
5 two-thirds of the state legislature and the governor declare a state fiscal emergency,
6 the money can be used for any purpose relating to services for people with
7 developmental disabilities, such as replacing the current level of spending on services
8 and for state administration costs. In addition, Amendment _ creates a reserve for
9 any money that is not spent in a given year for use in future years. Finally, as state
10 spending for services increases, funding from the federal government also grows,
11 increasing the total amount available to pay for services.

12 **Arguments For**

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

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

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

31 **Arguments Against**

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

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. The state government already spends
4 close to \$4 billion in state and federal tax money to provide health care-related
5 services, and this spending grows every year. The measure takes \$186 million out of
6 the private economy to expand the size and cost of government. This money could be
7 better used by Colorado's citizens and businesses to spend on their own needs and to
8 help grow the economy.

9 3) Amendment _ does not guarantee that all of the new money from the tax
10 increase will be spent on services for individuals with developmental disabilities. The
11 state legislature may change how the money is used anytime after the election. For
12 example, since the measure will force additional costs on the state budget to
13 administer new services, the state legislature may decide to use some of the money
14 for administration, leaving less for actual services.

15 **Estimate of Fiscal Impact**

16 **State revenue.** The sales tax increase raises about \$89 million in budget year
17 2010 and about \$186 million in budget year 2011 to provide services for people with
18 developmental disabilities.

19 **State spending.** Amendment ? increases state administrative costs about
20 \$170,000 in budget year 2010 as a result of an increase in the number of people with
21 developmental disabilities receiving services. These costs cannot be paid from the
22 new money. The federal government is also expected to provide additional funding for
23 state administration. Costs are estimated to increase by a similar amount in following
24 years as more people on the waiting lists receive services.

25 The providers of services will also experience additional costs. These costs will be
26 for both providing the actual services to more people and for startup and training
27 expenses to help accommodate the increase in services provided. It is assumed that
28 the state legislature will use the new sales tax money to pay for these costs.
29

30 In addition to the state costs for administration of services, the state will incur a
31 cost of around \$100,000 in both budget years 2009 and 2010 for computer
32 programming changes to track the new revenue and for mailing costs to notify
33 businesses of the change in the tax rate.

34 **Impact on taxpayers.** It is estimated that, on average, households will pay an
35 additional \$20 in state sales taxes in the first year of the tax increase and an additional
36 \$40 in the second year when the tax increase is fully in place. The additional amount
37 of taxes paid depends upon on how much each household spends on items that are
38 taxed by the state.