Introduction & Overview: The State's Budget

Colorado's state government faces a serious budget shortfall somewhere between $700 million and $1 billion in the coming fiscal year of 2011-12. The problem has been building for years, but has been deferred through various accounting manipulations, relatively minor budget adjustments to discretionary items, and more recently by enhanced federal aid. At the center of the problem lies an unwillingness to address spending, as well as a process and a structure that build greater pressure every year and add to the demand for more and more expensive services. With the prospect diminishing of continued federal budgetary support and the exhaustion of accounting devices, Colorado finally must face hard reality. The appetite of proponents for government action to create new state programs or to expand them now exceeds the will of the people to fund the programs. It is imperative to see all elected leaders make genuine efforts that will change services the State delivers and the manner in which it performs its duties. The legislature must be prompted by the people to end Colorado's habitual over-spending.

The appetite of proponents for government action to create new state programs or to expand them now exceeds the will of the people to fund the programs.

The problem stems from a budgeting structure in which demand for more money each year is greater than expected revenues. The impending spending crisis provides the opportunity to consider whether the numerous programs are redundant or outmoded and if they meet real needs and reflect rational operations. Legislators repeatedly have applied short-term, windfall funding to establish or continue multi-year programs, deferring solutions to out-year budgets.

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The current administration, many legislators, and reporters looking for sensationalized stories painted a picture: years of drastic budget cuts and nothing left to cut, state service collapsing, and the painful alternative of raising taxes as the only remaining option. Now citizens must collaborate with leaders to overcome short-sighted thinking to uncover the systemic improvements. Worse, the proposed solution of raising taxes and fees only advances and reinforces the tax-and-spend mentality that created and continues to feed the current situation. While increased taxes and fees might provide a near-term reprieve, state government consistently and repeatedly has demonstrated a propensity to increase spending beyond any level of increased revenues, and Colorado once again will face a situation of severe budget shortfalls.

For any proposed actions to be long-lasting, the systemic nature of the current situation must be exposed. Permanent fixes only can be realized through a detailed examination of the current budget structure, identification of redundant and ineffective programs, and discovery of opportunities for redefinition and reprioritization to bring state spending in line with current and future revenues.
It is to the first of these steps, an examination of the current budget's structure, that we now turn our attention. Let's deal with the facts. How much does the state government collect and spend in a year?

To proffer effective and substantial recommendations, we must begin with an understanding of the size and magnitude of the State's budget. Next, we need to examine the three categories of state moneys: the General Fund, Cash Funds, and Federal Funding. The flexibility of elected officials to change the direction and amount of funding of any program is enhanced or hampered depending on the way moneys are received and restricted.

Size

Most people think of how much they earn, and spend, in one year and they generally start counting on January 1 and end at the termination of the calendar year on December 31. Governments are generally unlike families in that they have a different fiscal year. To understand how revenues and expenditures are timed, the reader must know the new budget starts for Colorado on July 1, and straddles the end of the calendar year in order to wrap up its12-month budget on June 30.[1]

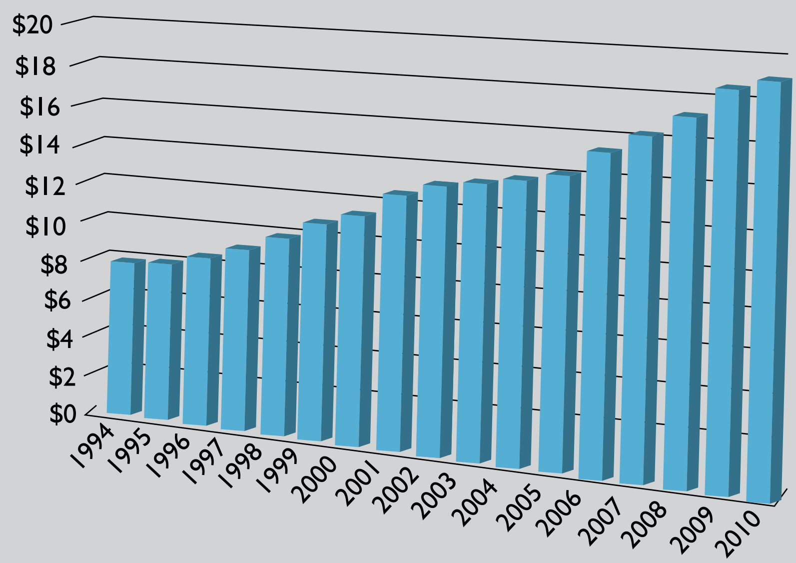
For the current fiscal year that started on July 1, 2010, the State will spend a total of $19.8 billion. Contrary to reports from the media and certain legislators, total spending has not declined in at least the past 15 years. This truth is most exemplified by the 2010-11 budget. Despite being in the midst of a recession, and amid claims of massive budget shortfalls, the newly approved budget is scheduled to increase by about $399 million, or 6 percent from the previous year.

The increase in total revenues received and spent annually over the past 15 years has been 187 percent. This increase has spanned both economic expansions and two recessions, including the most recent Great Recession. The average annual increase has been 7.4 percent.[2]

Put in *per capita* terms, the State's total fiscal year 2011 budget places a demand of $3,830 on every man, woman and child living in Colorado.[3] But there are many people who do not pay taxes, mostly children and spouses working only inside the home. Adult full-time students, elderly people on exempt incomes, some indigent people below a certain threshold and institutionalized persons also may contribute little or no taxes. Therefore, it is wiser to look at the burden on those people who earn the income and pay the taxes. The State's fiscal 2011 budget places a demand of $9,078 on every working Colorado family.[4]

The Colorado Constitution prohibits the State from deficit spending.[5] Although the U.S. Congress habitually spends more than the tax revenues generated for the federal government and borrows to fund its deficit, Colorado may not. In fact, the State has been prohibited from borrowing for any reason without prior voter approval. However, recent liberal interpretations by the Colorado Supreme Court have weakened this direct prohibition. As a result, within the past five years, state government borrowed in order to build a medical facility and a prison, and skirted the voter require-

Colorado State Total Budget (in billions)



Source: Colorado Joint Budget Committee, appropriations history: http://www.state.co.us/gov_dir/leg_dir/jbc/apphist.pdf

ment in doing so.[6] Otherwise, the State has been in general conformance with the requirement to spend no more day-to-day, operational funds than the taxes collected.

Three Broad Categories

To understand the State's budget, one must understand that its revenues are obtained from different sources.

Colorado government moneys are collected, allocated and managed within three broad categories. Each category has distinct sources of funding and specific programs or purposes to which funds are committed.

General Fund

The most sensitive category is the General Fund, which accounts for 39 percent of the total budget and generates the most debate and disagreement. In the year just ended on June 30, 2010, General Fund spending amounted to $7.06 billion. For the current fiscal year that started on July 1, 2010, General Fund spending will increase to $7.48 billion (a 6 percent increase), and the outlook for the following fiscal year anticipates further growth to at least $7.5 billion.[7] General Fund moneys can be spent for any legitimate governmental purpose that the legislature determines.

On the revenue side, the General Fund receives all your personal income taxes,[8] the income taxes you pay indirectly through corporate earnings, the State's portion of sales taxes on purchases,[9] excise taxes and other taxes on assets[10] and income.[11]

It is important to note that revenues from taxes are significantly influenced by the health of the Colorado, national and global economies. In both the 2001-02 recession and the most recent recession, revenue generation and spending in this category did not rise every year. Four of those years saw declines, although only two years experienced a reduction greater than 2 percent.

Cash Funds

The second budget category is Cash Funds, which are intended to be fees that individuals have some discretion in paying. An easily understood example is the fee you pay at the entrance to a State Park. If you choose to go elsewhere or to forego the opportunity to hike or camp that day, you pay nothing to the government. You make the decision whether to add to the stream of funds.

The largest cash funds, however, are not what you might think. All the tuitions college and university students pay to state institutions are part of this category. So too is the 22 cents gas tax[12] you pay on every gallon of gasoline you put in your vehicle.[13] People who use the services pay for them; a student (or his benefactor) must pay some tuition and a driver must pay to travel. Other fees include professional registration and licensing, co-payments collected at State health clinics, and tire disposal fees. The legislature has almost no flexibility to allocate revenues that are directed to the Highway Users Trust Fund or to college and university campuses.

As proposed and enacted, moneys in the Cash Funds segment of the State's budget are intended to pay for direct services related to the source of funding. For example, gasoline taxes are intended to help fund road maintenance, State Park fees support the construction and maintenance of park facilities, while hunting and fishing license fees are intended to help fund the Colorado Division of Wildlife.

As proposed and enacted, moneys in the Cash Funds segment of the State's budget are intended to pay for direct services related to the source of funding. For example, gasoline taxes are intended to help fund road maintenance, State Park fees support the construction and maintenance of park facilities, while hunting and fishing license fees are intended to help fund the Colorado Division of Wildlife. However, over the past several years, the Legislature has diverted some of these cash charges by raiding the balances in funds meant to cover direct services, and moving them to the General Fund. When individual cash fund balances are lowered too far, increases in those fees are triggered. This policy has been a source of controversy because many people perceive the diversion as an illegitimate way to prop up spending by taking funds intended and promised for direct services. The structural changes proposed within this report are anticipated to address General Fund shortfalls adequately to avoid further raids on fee balance accounts. Ultimately, it will be up to the legislature to halt this questionable practice.

Many people acknowledge that the Ritter administration advocated for, and obtained, tax rate increases. Using the subterfuge of calling increases in tax rates (which require advance approval by voters) increases in fees (which do not require such votes), the current administration successfully pushed through a "dirty dozen" of fee increases this year. The prior year, the highly controversial "FASTER"[14] revenues became the biggest example of such increases, in which increased taxes on car registrations were defined as "fees" and implemented without a TABOR election.

Federal Funding

The final major state budget category is federal funding. It probably surprises no one that the Air National Guard and the Army National Guard, which operate within the State's Department of Military Affairs, are funded mostly by the federal government. Other programs require the State to contribute some portion while the federal government funds the rest. Programs that originated in the national

Congress provide enough support and incentive that the State enthusiastically administers them. As an example, projects funded by the federal gas tax are identified and approved in Washington, D.C., but the Colorado Department of Transportation manages the implementation of the new construction.

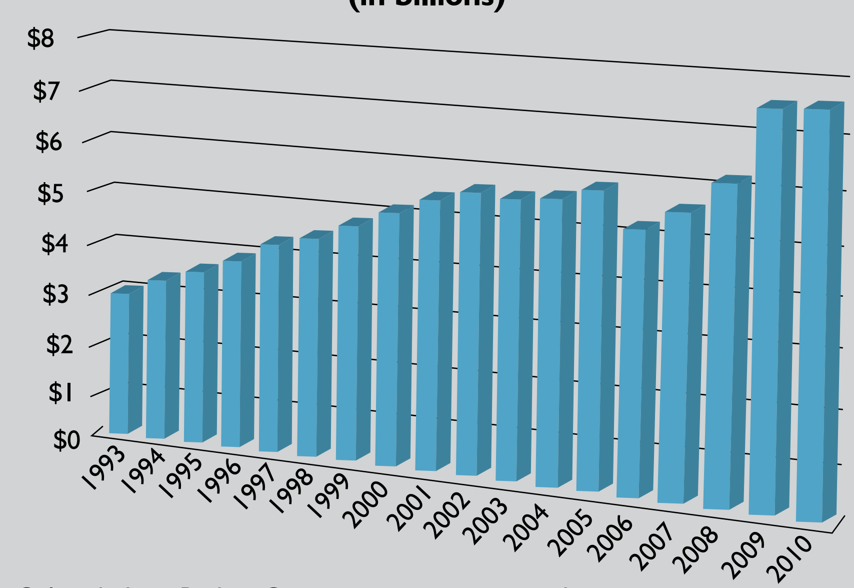
Federal funds commonly have been used to pay for specific programs and not as broad subsidies. This practice changed with the fiscal year ended June 30, 2010, when states, including Colorado, used federal moneys to plug budget holes. The Obama administration has responded to the economic slowdown by sending funds to states' governors under a program called the "American Recovery and Reinvestment Act" (ARRA). Within wide measures of discretion, these ARRA funds were used as the governors saw fit in order to fill budget gaps, bypassing the general assemblies.[15]

As an example, Colorado historically has received around 50 percent reimbursement for Medicaid payments. However, the recession prompted the federal government to apportion a larger percentage of state Medicaid funds through the ARRA stimulus. As a result of increased federal subsidies, for the fiscal year ended June 30, 2010, Colorado paid only 38.4 percent of Medicaid expenditures, while the federal government paid 61.6 percent. Translated into actual dollars, in FY 2009-10, total Medicaid expenditures were $3.9 billion of which the federal government paid $2.3 billion. In FY 2010-11, it is projected that total Medicaid expenditures will be $4.6 billion, of which $2.8 billion will come from Washington.[16] This projection assumes federal reimbursement for Medicaid expenditures will remain over 60 percent. If the federal moneys are not available, the State will have to backfill the difference.

Matching funding occurs extensively in education, as well. Thirteen percent of Colorado's K-12 education is subsidized with federal money, with higher education receiving 6.1 percent in federal funds.[17] Here again, ARRA stimulus money has been directed to plug shortfalls in Colorado's education budget. According to the Colorado Department of Education, the State received $621.9 million in education state grants through the "State Fiscal Stabilization Fund."[18]

It is far from certain whether these broad subsidies will continue next year, but according to most analysts, the ARRA should be considered a one-time remedy.

General Fund History (in billions)



Source: Colorado Joint Budget Committee, appropriations history: http://www.state.co.us/gov_dir/leg_dir/jbc/apphist.pdf

The Approaching Storm

Total state spending continues to climb. General Fund spending is forecasted to begin another expansion. What then is the problem that necessitates this report? Why, if things are improving, do we find ourselves struggling with a large problem for the coming new General Assembly to resolve? Anticipated revenue streams for both the General Fund and Federal Funding segments of the State Budget are critical sources for concern.

An official internal forecast is generated quarterly at the Capitol by a non-political, non-partisan team of economists employed by the Colorado General Assembly. The team is part of a larger group of employees collectively known as the Legislative Council staff.[19] We utilize the recent forecast here to understand that the General Assembly does not expect the economy to grow robustly, or great numbers of new jobs to materialize, in the next year. Therefore, the prediction is for slow growth in tax revenues and fees generated in the State.[20] Even though inflation is quiescent and population growth is modest, the forecast does not anticipate that taxes will grow even to the low limit allowed this coming year under the State Constitution.[21] Further, there are any number of scenarios under which the economy does not continue in recovery:

Economic conditions are expected to be difficult throughout 2011. Although recovery is officially underway, it is slow and weak with real risks that business conditions will worsen.

- Renowned economist Arthur Laffer recently observed[22] that the Bush tax cuts, which are anticipated to expire at the end of the year, are causing people to accelerate income into this cheaper tax year, to be followed by a deep second recession after January 1, 2011.
- The President of the Kansas City Federal Reserve Bank ("our" Federal Reserve District Bank) now has called publicly for monetary policy to take a dramatic change in direction.[23] When the "federal funds"[24] rate is close to zero, as it has been since it dipped below 1.0 percent on December 16, 2008,[25] there is no room for monetary policy to become more "accommodative," and fears of inflation now appear greater than earlier fears of deflation. The St. Louis Federal Reserve Bank tracking the monetary base reports it has ***more than doubled*** within the past two years, soaring from $900 billion to $2.4 trillion.[26]
- The nation had hoped for several years of payroll tax funds to exceed collections, thereby providing a buffer to the budget of the federal government. However, revenues were off and entitlement spending jumped this year, so higher deficits caused by old age pension benefits eating into program spending may arrive sooner than later. In the first half of 2010, tax benefit payments for Social Security exceeded tax revenues,[27] a situation not expected for another five years or so. Although an expanding economy should reverse that situation until approximately 2016, it shows that the FICA surplus used to prop up federal spending may not be as readily available as prognosticators had hoped.

General Fund revenues are highly susceptible to fluctuations in the health of the Colorado, national and global economies. Colorado's economic retrenching resulted in an early decline in tax-based funds, but then subsequent flat revenues during the current downturn. During the recession, every state government across the nation has felt the pinch. That circumstance was repeated in almost every other state, and it should be noted that Colorado's reduction was rather modest in comparison with states that have governments in real crisis, such as New York, New Jersey, Michigan and California. But to what extent are tax-based revenues expected to recover?

It is important to observe that citizens in fiscal crisis states, such as Michigan and California, do not enjoy the constitutional protections against governments growing too fast in good times and then needing to retrench severely in troubled times. Colorado is protected from excessive growth by our own constitutional tax-and-spending limitation, the Taxpayer's Bill of Rights (TABOR). That being the case, it is timely to note that TABOR has had nothing to do with restricting revenues received now. It functions to curtail government from growing faster than citizens' abilities to support higher budgets, but has no immediate effect during a downturn. The only way our protection against too-rapid growth in government could apply is that legislators cannot increase tax rates or institute new taxes without going to a vote of the people. Even the ardent proponent of Keynesian economics who justifies and urges high government spending, however, knows that governments should not raise taxes in the middle of a recession for fear of killing off any nascent recovery.

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Citizens across the nation are expressing more and more unease about the size of the national deficit and the totals accumulated in both debt and unfunded liabilities. U.S. Senators and Congressmen are growing increasingly leery of running up the national debt at record paces.[28] The sources of those funds have come from borrowing and not from new tax receipts. Many people see huge negative implications in the Federal Reserve System[29] buying up U.S. Treasury bonds directly, after lenders did not subscribe to the full issuance.

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Since federal funds have been borrowed to prop up state budgets, it is far from certain that federal subsidies will continue at the levels seen over the past two years. The moneys allowed the State to delay some hard decisions that likely will be forced during the next legislative session. The Legislative Council economists' forecast noted:

> *If you incorporate the losses of all of the one-time sources of money …. into the shortfall for FY 2011-12, the FY 2011-12 shortfall increases from $61.4 million to $678 million. If you also assume that the state legislature chooses to fund $300 million in budgetary pressures from inflation and caseload growth,* ***the shortfall increases to just under $1 billion.*** *[emphasis added]*[30]

The Systemic Problem

Colorado's state budget must be in balance at the end of each fiscal year—a requirement imposed from the citizens by a constitutional provision. If upon examination, the current budget and each subsequent budget face a deficit that must be closed, then one can conclude the structure has been established to grow spending faster than revenues. A systemic problem exists. This has been the case in Colorado, during good years and bad, for most of the past decades.

The State's budget problems arise not just from recent difficult economic times, but originate from structural spending problems that allow reoccurring crises.

It is impossible for the private sector to gain ground on public spending if the system is rigged for increases that will always be larger on the side that demands services than the side that pays for them.

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That reality goes a great distance in explaining the antipathy towards TABOR manifested by supporters of bigger government and tax consumers. We emphasize this point while at the same time recognizing the unusual degree of pressure to which the State's budget is being subjected by current economic conditions. The present and future budget pressures come from both the aforementioned structure and a temporary economic malaise. As acknowledged throughout this report, the national economy and the state economy is limping out of a severe recession, from which the majority of forecasters expect will take many more months, perhaps years, to recover fully. The recession has been accompanied by a sharp revenue shortfall in General Fund receipts to the State. We do not presume to minimize the temporal problems resulting from this economic downturn. The point not to be overlooked, however, is that even with a strong surge in revenues to the government, the more dominant factor of structure remains.

For a more complete understanding of the budget process, see that section, (page 23). Here it is enough to observe that budgets from one year to the next are meant to be funded by streams of income that are repeated year-over-year, reasonably predictable and relatively stable. For example, the tax on communications that nearly every citizen pays with every phone bill most certainly qualifies as a recurring source of income. By way of comparison, however, anyone can see that using money to build the base from a one-time occurrence—say the sale of an excess government building—is not repeatable or stable. Therefore, readers are urged to see that a mistake has been made by the legislature in this fashion. Dr. Barry Poulson's presentation to the Long-Term Stability Commission in 2009[31] warned:

Another source of the structural deficit in the state budget is annualization—i.e., the use of one-time money to fund ongoing programs. This problem has been exacerbated by the elimination of the cap on general fund spending. With that spending cap in place, general fund expenditures were funded with permanent sources of revenue. One-time money was used primarily to fund specific projects in transportation and capital construction. ***The elimination of the general fund spending cap means that one-time money now will be used to fund ongoing programs. Not only will this change leave less money for transportation and capital projects, it will exacerbate the structural deficit in the state budget*** *[emphasis added]. This is why a very important step towards fiscal responsibility would be repeal of the legislation that abolished the cap on general fund spending.*

For several years, the Colorado Legislature has used one-time, windfall moneys to establish long-term programs, thereby systemically and structurally creating an unsustainable burden on state resources and upon Colorado taxpayers. Solutions have been

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deferred year after year. As recently as the beginning of the decade, relatively small budget shortfalls were handled by shifting money around between various funding buckets. To deal with perennial budget shortfalls, such short-term financial manipulations were made as shifting a payroll into the next budget cycle, deferring state building maintenance, raiding cash funds and raising fees.

Colorado finds itself at a crossroads. The first path, favored by the current administration and the current class of legislators, addresses only the revenue side of the equation by promoting higher fees and increased taxes. In fact, as noted above, several actions aligned with this perspective already have been implemented. Continued tax rate increases will promise short-term solutions in order to quiet budgetary concerns, although even those steps may backfire if increased rates drive such disincentives that the changes lead to lower actual revenues. Certainly the long-term impact of any tax increase is likely to drive high-income earners out of the state, as has happened in California, New York, New Jersey and other high-tax states. Further, higher taxes will not permanently resolve the internal conflicts for ever-more public services and higher costs. States with higher tax rates uniformly have seen them turned into disproportionate salaries for government workers, creating further disparities between government professionals and the citizens who pay their wages.

Colorado finds itself at a crossroads. The first path, favored by the current administration and the current class of legislators, addresses only the revenue side of the equation by promoting higher fees and increased taxes.

The answer to the dilemma is to pursue the specific policy concepts offered in this paper – to address the systemic problem of agencies established with short-term funds that carry long-term liabilities. Together, the newly-elected General Assembly and newly-elected governor must make the hard choices that will restore Colorado to fiscal sanity. They will create a budget that does not flow year-to-year from one crisis to another. Citizens may still obtain the basic services that few argue should be central to the properly defined role of government. The situation cannot be delayed for another administration or even by another year because as Dr. Poulson presciently observed:

> *This problem of annualization is about to get much worse because of federal bailout money. Much of this one-time money is earmarked for ongoing programs, such as Medicaid. When the federal bailout dollars disappear two years from now [2011], it will be difficult to finance these ongoing programs.*[32]

Acknowledgements

Penn R. Pfiffner was the primary author of this section. See his biography in the authors section.

The Honorable John K. Andrews, Jr. reviewed the section for clarity and factual interpretation. Mr. Andrews was President of the Colorado Senate, 2003-2005. He is currently director of the Centennial Institute at Colorado Christian University, a regular commentator for Colorado Public Television and KNUS Radio, and a *Denver Post* columnist. He founded the Independence Institute in 1985, helped establish the State Policy Network in 1991, and headed the Texas Public Policy Foundation 1993-94. He was educated at Principia College.

The Honorable Mark Hillman reviewed this section for accuracy and factual interpretation. See his biography in the authors section.

The Honorable Greg Kaza provided perspective and reviewed the section for accuracy. Mr. Kaza has served as Executive Director of the Arkansas Policy Foundation in Little Rock since 2001. He served six years (1993-98) in the Michigan House of Representatives where he chaired the Urban Policy Committee. He holds an M.S.F. in International Finance from Walsh College. His academic research has been published in peer-reviewed journals in North America, Europe and Asia.

The Honorable Kent Lambert added perspective and insights about current operations of the legislature. He serves in the Colorado House of Representatives from El Paso County and was a member of the Joint Budget Committee for one budget cycle. Mr. Lambert retired as a Colonel from the Air Force, where he had a career as a pilot, operations research analyst, and military diplomat. A graduate of the Air Force Academy, he also holds masters degrees from the University of Southern California in International Relations, and the Air Force Institute of Technology in Operations Research.

Barry Poulson reviewed this section for accuracy and factual interpretation. See his biography in the authors section.

We extend our appreciation to **Thomas Ryan**, who spent a great deal of time editing and amending this section. Mr. Ryan is the Chief Research Officer and co-owner of Analyst Strategy Group, a consulting firm providing marketing consulting services to high-tech companies. Concurrently, earlier this year he founded Reclaiming Moral Government, a company providing educational programs focused on civic responsibility for churches, schools, and clubs. His earlier career included working as the Chief Information Officer for EchoStar, and as a strategic consultant at KPMG Consulting. He holds an MBA and a Bachelor of Science in Business/Economics from Regis University.

We acknowledge the time generously given by **Jason Schrock**, Economist with the Legislative Council Staff, who professionally addressed direct questions regarding the estimate of potential budget shortfalls if federal funding is curtailed, that backfills the current budget.

Greg Schroeder clarified where in the state constitution the prohibition of a state property tax exists. Mr. Schroeder is a Property Tax Specialist with the Division of Property Taxation, an office within the Department of Local Affairs.

We thank **Jonathan Williams** for his review of this section. Mr. Williams is the Director of the Tax and Fiscal Policy Task Force for the American Legislative Exchange Council, headquartered in Washington, D.C. He is the author, along with Dr. Arthur Laffer and the ***Wall Street Journal's*** Stephen Moore, of the book ***Rich States, Poor States***, which is now in its third annual edition. Mr. Williams graduated ***magna cum laude*** from Northwood University in Midland, Michigan, majoring in economics, banking/finance, and business management.

We must acknowledge the time generously given by **John Ziegler**, the Staff Director of the Joint Budget Committee, who patiently answered direct questions regarding the magnitudes and timing of expected changes in federal funds going into the State's budget.

Appendix

Colorado State Total Budget (in billions)	
1994	7.56
1995	7.73
1996	8.27
1997	8.82
1998	9.63
1999	10.48
2000	11.15
2001	12.35
2002	12.96
2003	13.27
2004	13.62
2005	14.03
2006	15.29
2007	16.3
2008	17.21
2009	18.68
2010	19.17
Source: Colorado Joint Budget Committee, appropriations history: http://www.state.co.us/gov_dir/leg_dir/jbc/apphist.pdf	

General Fund History (in billions)	
1992-93	3.02
1993-94	3.35
1994-95	3.62
1995-96	3.91
1996-97	4.25
1997-98	4.49
1998-99	4.79
1999-00	5.10
2000-01	5.40
2001-02	5.61
2002-03	5.55
2003-04	5.64
2004-05	5.84
2005-06	5.19
2006-07	5.52
2007-08	6.11
2008-09	7.45
2009-10	7.48
Source: Colorado Joint Budget Committee, appropriations history: http://www.state.co.us/gov_dir/leg_dir/jbc/apphist.pdf	

Endnotes

[1] The federal government's fiscal year runs from October 1 to September 30 of the next year. Its next budget year will start on October 1, 2010, and will end on September 30, 2011.

[2] This figure is not adjusted for inflation. Over the same period, from 1994 to 2009, inflation averaged 2.51% per year (http://inflationdata.com/Inflation/Inflation_Rate/HistoricalInflation.aspx).

[3] There are approximately 5,170,000 residents of Colorado. See https://www.dola.state.co.us/dlg/demog/pop_colo_forecasts.html.

[4] There are approximately 2,181,287 families living in Colorado. See https://www.dola.state.co.us/dig/demog/housing_muni_estimates.html.

[5] Article X, Section 16.

[6] At the time of this publication, an initiated constitutional amendment was on the November 2010 ballot. Governments currently issue "certificates of participation" (COPs) to get around the existing restriction. Pending its passage of the measure, Amendment 61, the Constitution might return to the existing restriction so that citizens once again get a final review and approval before government burdens them further with debts.

[7] All from "Focus Colorado: Economic and Revenue Forecast." Colorado Legislative Council Staff, Economics Section, June 21, 2010, Table 1, page 4. It is imperative to note that the funds diverted by Amendment 23 into the State Education Fund are used to fund K-12 education directly, and therefore must be included in annual spending calculations.

[8] The rate for Colorado is based on the "adjusted gross income" from the income tax return that you file with the federal government. After deductions and exemptions, a flat rate of 4.63 cents is paid on every dollar earned.

[9] Although purchases of some items such as food and medicine are not taxed, a flat rate of 2.9 cents is paid on every dollar of most goods bought in Colorado.

[10] There is an estate tax (death tax), taxes on insurance premiums, gambling and more. Property taxes are local. At the time the TABOR amendment passed, there were no state-wide property taxes in place, and the TABOR Amendment (paragraph 8) clearly inserts a constitutional prohibition that "No new state real property tax ……. shall be imposed."

[11] Income from dividends, interest, some capital gains, royalties and net rental income is rolled up in the income tax form reported to the Internal Revenue Service, and Colorado depends on the Form 1040 report.

[12] In addition, the federal government collects another 18 cents gas tax on every gallon.

[13] Gas put into vehicles that do not travel on local or state roads, such as farm tractors, is exempted from the gas tax.

[14] Senate Bill 09-108.

[15] We are indebted to the Honorable Kent Lambert for this information. From his position as a member of the Joint Budget Committee, he observed that the ARRA funds were sent directly to the Executive Branch so that the Legislative Branch, which is supposed to hold the power of the purse, did not determine how the funds were to be appropriated.

[16] Colorado Department of Health Care Policy and Financing, http://www.colorado.gov/cs/Satellite/HCPF/HCPF/1197969486224.

[17] 2009-10 education funding: K-12 education was 24.6% of the total budget ($4.48B). Higher education was 14.7% of the total budget ($2.67B).

[18] Congress designed the State Fiscal Stabilization Fund to prevent reductions in critical education and other services. Colorado received a $760,242,539 State Fiscal Stabilization Fund state allocation, which includes $621.9 million for its Education State Grant and $138.3 million for its Government Services Grant. See http://www.cde.state.co.us/scripts/federalstimulus/detail.asp?itemid=432776.

[19] The group should not be confused with the similarly-named committee of state legislators, elected as leaders from among all the legislators, who make the final executive decisions about how the Legislative Branch is run.

[20] "Focus Colorado: Economic and Revenue Forecast." Colorado Legislative Council Staff, Economics Section, June 21, 2010.

[21] Article X, Section 20 (TABOR) allows spending based on the current budget to be increased automatically by the percentage growth in inflation plus another percentage increase to reflect changes in population.

[22] Arthur Laffer, "Tax Hikes and the 2011 Economic Collapse," *The Wall Street Journal*, June 6, 2010, www.WSJ.com/taxes.

[23] Thomas M. Hoenig, "The High Cost of Exceptionally Low Rates., http://www.bis.org/review/r100625f.pdf.

[24] The interest rate that banks charge for short-term loans to each other.

[25] Open Market Operations. Intended federal funds rate, Change (basis points) and Level." Board of Directors of the Federal Reserve System. August 2010. http://www.federalreserve.gov/monetarypolicy/openmarket.htm.

[26] Federal Reserve Economic Data, Federal Reserve Bank of St. Louis: *Adjusted Monetary Base* http://research.stlouisfed.org/fred2/graph/?s[1][id]=AMBNS, accessed July 2010.

[27] Michael Barone, "Social Security cash flow suddenly negative," *Washington Examiner*, June 12, 2010, http://www.washingtonexaminer.com/opinion/blogs/beltway-confidential/Social-Security-cash-flow-suddenly-negative-96223259.html.

[28] For a more complete look at the problem, see "We Think You're Already Bankrupt" on the Independence Institute's Fiscal Policy web page, http://www.tax.i2i.org.

[29] The nation's central bank, which creates the money supply.

[30] "Focus Colorado: Economic and Revenue Forecast," idem, page 3.

[31] Barry W. Poulson, Ph.D. "A Fiscal Roadmap for Colorado: Remarks prepared for the Long-Term Fiscal Stability Commission, July 9, 2009," reprinted in July 2009 as Independence Institute Paper IP-8-2009 and available in full on our web site at http://old.i2i.org/articles/IP_8_2009_a.pdf.

[32] "Long-term Fiscal Stability commission," idem., page 3.