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Study of State and

Local Government

Fiscal Policy

Report to the
COLORADO
GENERAL ASSEMBLY

Colorado Legislative Council
Research Publication No. 461
November 1999

**STUDY OF STATE AND LOCAL
GOVERNMENT FISCAL POLICY**

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November 1999

To Members of the Sixty-second General Assembly:

Submitted herewith is the final report of the Study of State and Local Government Fiscal Policy. The interim committee, which was created pursuant to Senate Joint Resolution 99-048, has no legislative recommendations to submit to the General Assembly for the 2000 session.

Respectfully submitted,

/s/ Senator Ray Powers
Chairman
Legislative Council

RP/RK/pw

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STUDY OF STATE AND LOCAL GOVERNMENT FISCAL POLICY

Members of the Committee

Senator Ron Teck
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Senator John Andrews
Senator Rob Hernandez
Senator Mark Hillman
Senator Stan Matsunaka

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Vice Chairman
Representative Gayle Berry
Representative Keith King
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Representative Carl Miller
Representative Valentin Vigil

Legislative Council Staff

Ron Kirk
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Chief Economist

Harry Zeid
Senior Fiscal Analyst II

Mike Mauer
Economist IV

INTERIM COMMITTEE ON THE STUDY OF STATE AND LOCAL GOVERNMENT FISCAL POLICY

Committee Charge

Senate Joint Resolution 99-48 created an eleven-member legislative study committee to review and consider the need to conduct a fiscal study of state and local governments. The resolution directed the committee to develop a plan for: the phases of the study; the data to be collected; the sources for data; the parties responsible for collecting data; the cost for each phase of the project; and if appropriate the creation of committees or task forces to make recommendations to the General Assembly based on the data and analysis of data. Senate Joint Resolution 99-48 further directed the committee to establish the framework for a study that could yield recommendations to make the organization and structure of state and local governments more efficient and the administration of taxes more balanced.

Committee Findings and Activities

The committee held five meetings and received testimony on a variety of fiscal policy issues that impact state and local governments. The committee's first meeting focused on a discussion of the principles of a high quality state revenue system and how other state tax structures differed from Colorado's. Subsequent meetings allowed representatives from the state, local governments, nonprofit organizations, businesses, and citizens the opportunity to provide recommendations to the committee on issues that could be considered in a comprehensive tax study. The suggested areas of study were:

Government Structure

- identify overlapping or duplicative government services and recommend necessary changes needed to be more efficient, including the elimination, reduction, and privatization of certain services;
- evaluate how intergovernmental coordination and cooperation affects the provision of services related to regional growth;
- consider the organizational problems in different taxing jurisdictions concerning fiscal issues and revenue sharing;

Revenue and Expenditure Structure

- perform a review and analysis of revenue and expenditure trends for state and local governments and determine whether revenues from taxes are adequate for local governments under TABOR growth limits;
- evaluate state and local tax bases and their responsiveness to changing sectors of the economy;

- look at the impact of a recession on TABOR surplus revenues given tax reductions enacted during the 1999 session;
- examine the competitiveness of major state and local taxes by comparing rates to other states including the equity of the state flat tax rate;
- look at the impact of user fees on state and local revenues;
- determine how reduced federal funding will impact state and local governments and their ability to provide the same level of services;

Sales Tax

- evaluate the growth in Internet sales and the potential loss of sales tax revenues;
- look at how cooperation between state and local governments could simplify reporting requirements and simplify the sales tax system;
- examine a uniform rate structure for sales and use taxes at all levels of government and how the cost of compliance for businesses can be reduced;
- evaluate the cost of sales tax exemptions over time for state and local governments;

Property Taxes

- review the trend for the assessment rates between residential and other classes of property and the interaction of Gallagher and TABOR on property taxes;
- examine how homestead exemptions and the elimination of property taxes for the elderly impact local property tax bases;
- look at the elimination of the business personal property tax or tax relief provided by accelerating the depreciation of personal property;
- determine the impact of the elimination of the business personal property tax on local governments;

Economic Growth

- eliminate or modify enterprise zones to reflect the current economic climate;
- identify the relationship between taxes and economic growth;

Taxpayers

- study the effectiveness of tax credits and incentives and determine who benefits;

- evaluate taxpayer preferences toward user fees, credits, exemptions, and exclusions;
- identify the state and local tax burden on taxpayers by income category and household size; and
- determine the fairness of the TABOR surplus refund mechanisms and examine the distribution of TABOR surplus refunds by who pays what taxes.

During the final two meetings, the interim committee discussed how a study could benefit Colorado's tax and revenue structure along with some of the disadvantages of a comprehensive study. Legislation was drafted to establish a framework for a two-year study made up of two nine-member task forces; one would study the structure and organization of government and the other would study tax and fiscal policy. A legislative oversight committee would be responsible for directing the study. In addition, an independent professional staff would work together with the task forces and oversight committee to compile and analyze data. In support of a study, some committee members pointed out that a study could:

- achieve a more uniform and balanced tax structure for state and local governments;
- create a reliable revenue system that produces revenues from a balanced variety of sources;
- reduce the complexity of the state's tax system and some of the problems that individuals and businesses encounter in the reporting process;
- increase efficiency in the operation of state and local levels of government; and
- if needed, consolidate subdivisions of local governments to achieve a more efficient delivery of services.

During the final meeting, the committee decided against conducting a fiscal study. The following issues were raised:

- a long-term study could impede the legislative process for several years and tie the hands of the legislature from implementing solutions to short-term fiscal problems;
- none of the studies performed by other states resulted in legislation that made comprehensive changes to a state's revenue system;
- most of the fiscal problems have already been identified by the legislature and the General Assembly should not wait two years for the recommendations of a committee to provide immediate tax relief;
- the scope of the proposed legislation is too broad and it could be difficult to measure progress in all of the proposed areas of study; and

- the duration of the study, size of the task forces and professional staff will result in a study that is too costly.

Committee Recommendations

The committee has no recommendations for legislation.

RESOURCE MATERIALS

The resource materials listed below were provided to the committee or developed by Legislative Council Staff during the course of the study. The summaries of meetings and attachments are available at the Division of Archives, 1313 Sherman Street, Denver. For a limited period of time, the meeting summaries and materials developed by Legislative Council Staff are available on our web site at:

www.state.co.us/gov_dir/leg_dir/lcsstaff/1999/99interim.

<u>Meeting Summaries</u>	<u>Topics Discussed</u>
August 5, 1999	The structure of state and local governments in Colorado; principles of a sound state tax structure; tax studies in other states; and a panel discussion with representatives of governments and business on the need for a fiscal study.
August 23, 1999	Recommendations by representatives of local government on tax and fiscal issues that could be included in a fiscal study.
September 23, 1999	Discussion on the political climate prior to the passage of the Gallagher Amendment; presentation by Forrester Research on electronic-commerce; and recommendations by representatives of the business community, nonprofit organizations, and private persons on issues to be considered in a comprehensive tax study.
October 21, 1999	Presentations by President John C. Buechner and Mr. Lyle Kyle on the benefits of a comprehensive tax study; discussion on a legislative proposal.
October 29, 1999	Final action on a legislative proposal.

Memoranda and Reports

Legislative Council Staff memoranda titles:

Issues and Topics for a Comprehensive Tax Study, October 14, 1999.

Governor's Local Affairs Study Commission, October 19, 1999.

Summary of State and Local Revenues and Expenditures, October 29, 1999, revised November 29, 1999.

Reports provided to the committee:

Principles of a High-Quality State Revenue System, National Conference of State Legislatures, Third Edition, July 1999.

"Taxing the Weightless Economy," *Governing*, April 1999.

Constitutional Tax and Expenditures Limitation in Colorado, CU Policy Collaborative, August 1999.

An Advisory Commission on Intergovernmental Relations, Department of Local Affairs, February 1996.

1998 Development Report Card for the States, Corporation for Enterprise Development, 1998.

Colorado Sales/Use Tax Rates, Colorado Department of Revenue, August 1999.

The Colorado Business Personal Property Tax, Colorado Association of Commerce and Industry, July 1999.