THE CALIFORNIA *Journal of*
Politics & Policy

Colorado: Budgetary Reform, Revenue Gains, and a Prosperous Economy

Michael J. Berry
University of Colorado, Denver

Abstract

During the final year of Governor John Hickenlooper's second term as governor the General Assembly passed a state budget including $11.42 billion in General Fund spending that increased funding for nearly every state department. Governor Hickenlooper prioritized increased spending for education and the criminal justice system as Colorado residents also considered tax increases for education and transportation. Colorado’s economic trajectory remains generally positive, and recent budgetary reform has allowed policymakers to make greater investments in key issue areas.

Introduction

In a typical year, debates surrounding the state's budget are among the most controversial matters addressed by Colorado state lawmakers. Because the current legislature is closely divided along party lines, many expected the budget to take center stage once again in the 2018 legislative session. Funding for transportation and education have been especially salient issues in recent months. Before the current session began, the *Denver Post* outlined some of the major items on the General Assembly's agenda. Among the most pressing issues facing lawmakers were transportation funding, the opioid crisis, energy development, and the financial stability of the Public Employees' Retirement Association (PERA), in addition to matters surrounding sexual harassment in the legislature (Frank and Eason 2018).

For the fourth consecutive year, divided party control exists in the General Assembly with Democrats holding a 10-seat advantage in the state House, while a slim Republican majority exists in the Senate with 18 Republicans, 16 Democrats, and one unaffiliated senator. At times the partisan differences between the chambers have been substantial. In prior legislative sessions, the issue of guns has been among the most controversial topics addressed by legislators as evidenced by the successful recall elections of two Democratic lawmakers over their votes on gun control bills in 2013 (Berry 2016). During the current session, the Republican controlled Senate passed legislation in a party-line vote to allow Coloradans to conceal carry a firearm without a permit (Paul 2018a). With no Senate Democrats supporting the measure, the bill was dead on arrival in the House where Democrats hold the majority. A bill to ban bump stocks was recently defeated by Republicans in the State, Veterans, and Military Affairs Committee following a party-line vote. While political parties in Colorado remain bitterly divided on the issue of guns, other previously controversial measures witnessed unexpected compromise during this session such as increased funding for the program to provide driver's licenses for undocumented residents.

Beginning in August 2014, an estimated 120,000 undocumented residents could begin applying for driver's licenses. Although the state issued 32,325 licenses through the program, it was troubled by a lack of staff and funding since demand outpaced the number of appointments offered by the state (Paul 2017). Many expected further problems as the licenses first issued were due for renewal, and the program originally required all individuals to procure or renew their licenses in person. However, a bill recently passed in the Republican-controlled Senate provides additional funding to the program and allows existing licenses to be renewed online, among other changes (SB18-108). Following successful passage in the House, Governor Hickenlooper signed the bill in May. The passage of this bill into law demonstrates the possibility for bipartisan compromise in a divided General Assembly on controversial issues as well as debates surrounding spending priorities. The emergence of the #MeToo movement also appears to have brought the parties together in an effort to change the prevailing culture in the legislature.

The most publicized controversy of the legislative session was the emotionally charged debate surrounding the expulsion of a Democratic legislator following multiple sexual harassment allegations. Representative Steve Lebsock (D-Thornton) was the subject of multiple allegations of sexual harassment. Three formal complaints were made against him, including one from fellow Representative Faith Winter (D-Westminster). Following an independent investigation, which found credible evidence that he had engaged in harassment and retaliation, and a full day of emotional speeches on the House floor, the chamber voted 52 to 9 to expel Lebsock from the legislature. The outcome was far from certain prior to the historic vote, as the expulsion resolution required a two-thirds majority vote in order to remove the incumbent representative. Many who supported removing Lebsock cited a need to change the culture in the state legislature. As a result of the vote, Lebsock became the first state representative to be expelled in more than 100 years.

In a strange twist, Lebsock submitted the paperwork to change his party affiliation from Democrat to Republican minutes before the expulsion vote. According to state law, this handed the House vacancy to the state's Republican Party to fill instead of the Democrats who previously held the seat. This act was clearly intended to spite fellow Democrats who abandoned their support of Lebsock once the extent of his harassing behavior became apparent. A spokesperson for the Colorado GOP initially floated the idea of not filling the seat within 30 days, which would allow the Democratic governor the opportunity to appoint a successor. However, the party ultimately decided to appoint a Republican to temporarily hold the seat, which many expected to be regained by the Democrats in the next election cycle. This did not alter the majority party in the chamber since Democrats hold an eight-seat majority after Lebsock's expulsion.

Lebsock was not the only state legislator rebuked for inappropriate behavior, as an independent investigation found credible evidence that Senator Randy Baumgardner (R-Hot Sulphur Springs) sexually harassed a legislative aide in 2016. Senator Baumgardner resigned a key committee chair position while maintaining his innocence in advance of an expulsion vote in the Senate. While the vote to expel Lebsock was supported by representatives of both parties, the parties appeared more divided in the Senate with regard to the allegations against Baumgardner. Republican leadership ordered Baumgardner to undergo sensitivity training, while Democrats have called for more severe sanctions including expulsion. In early April, Baumgardner survived an expulsion vote with 17 voting in favor and 17 voting opposed. While this fell short of the two-thirds majority necessary to remove a lawmaker, potential expulsions from the Senate threatened larger reverberations on policy and the budget as the Republicans held a narrow one-seat majority until Senator Cheri Jahn changed her party affiliation from Democrat to unaffiliated in December 2017.

On the legislative front, the second session of the 71st General Assembly convened on January 10, 2018 after a special session called by Governor John Hickenlooper in October 2017 failed to produce any accomplishments. Hickenlooper previously called a special session in 2012 to debate a civil unions bill, which ultimately failed to pass. The 2017 special session similarly adjourned amid partisan gridlock. The governor called this special session to address what was described as a bill drafting error contained in a major reform that passed at the end of the General Assembly's regular session in 2017. Senate Bill 17-267 imposed many substantial reforms (see Berry 2017). Among the most notable of these was the repeal of the existing hospital provider fee structure and the creation of the Colorado Healthcare Affordability and Sustainability Enterprise (CHASE) as a government enterprise fund to collect healthcare sustainability and affordability fees. Importantly, this change made it so hospital provider fees do not count as state revenue for the purposes of the Taxpayer's Bill of Rights (TABOR). The bill drafting error concerned a modification to the taxes levied on recreational marijuana sales.

When Colorado voters approved Amendment 64 to legalize recreational marijuana use in 2012, the amendment included the following language governing the General Assembly's authority to levy taxes on retail marijuana sales, "The General Assembly shall enact an excise tax to be levied upon marijuana sold or otherwise transferred by a marijuana cultivation facility to a marijuana product manufacturing facility or to a retail marijuana store at a rate not to exceed fifteen percent prior to January 1, 2017 and at a rate to be determined by the General Assembly thereafter, and shall direct the department to establish procedures for the collection of all taxes levied." Senate Bill 17-267 collapsed the existing 2.9 percent sales tax on retail marijuana sales and the 10 percent special tax into a single 15 percent state tax. The drafting error occurred because legislators intended to only remove the statewide sales tax, while an exemption allowed municipal governments to impose their own sales taxes on marijuana sales where permitted. The bill, however, failed to include a similar exemption for special districts such as the Denver metro area's Regional Transportation District (RTD) and the Scientific and Cultural Facilities District (SCFD), among several others. This omission meant that these districts could no longer continue collecting tax revenue on marijuana sales as they had before Senate Bill 17-267 went into effect.

While the SCFD supports scores of organizations and programs including the Denver Zoo, Denver Art Museum, and Denver Museum of Nature & Science, the funding losses incurred by RTD were arguably more likely to affect Colorado residents. The RTD special district encompasses 2,342 square miles across eight counties. The district includes nearly three million residents in its service area. Ridership statistics from the past three years show that annual ridership on RTD commuter rail, light rail, and bus services exceeded 100 million trips (RTD 2018). Analysts projected that the bill drafting error would cost RTD nearly $600,000 per month. SCFD monthly losses were estimated at about $56,000. The special session to correct the bill drafting error was opposed by many Republicans. Some argued that modifying the existing tax structure would require a vote of state residents consistent with TABOR's requirements. The session ended after two measures to correct the error were rejected in the Senate after passage in the House with mostly Democratic support.

Following an unsuccessful special session, Governor John Hickenlooper enters the final year of his second term as governor. Term limits prevent him from running again, although there are several indications that he is preparing to launch a bid for the presidency in 2020. A November 1 letter to the General Assembly's Joint Budget Committee (JBC) provided details on the key aspects of the governor's budget request. The budget proposal for the 2018–2019 fiscal year proposed a total funds budget of $30.5 billion, which is an increase of 3.7 percent from the prior year. The General Fund spending budget of $11.5 billion represents a 2.6 percent increase. After legislators considered nearly 200 amendments to the long bill, the state budget totals enacted into law were close to the numbers proposed by the governor. The state's final General Fund budget was $11.42 billion with $30.63 billion in total fund spending (Joint Budget Committee 2018).

The letter to the JBC stated that the governor's budget request "reflects the dynamic factors that are occurring in Colorado's economy, constitutional and statutory requirements, and demand for services from State government" (Hickenlooper 2017). It further noted that the "passage of S.B. 17-267 has materially and positively changed the State's financial outlook compared with one year ago, when the request had to close a $500 million funding gap in the General Fund. We believe the request reflects the priorities that Colorado citizens expect and accordingly the request addresses important needs in K-12 and higher education as well as certain essential criminal justice system needs" (Hickenlooper 2017). In percentage terms, spending on K-12 education represents the largest share of the general fund request at 36 percent, while the spending allotment for higher education budget is 9 percent. Nearly every state department was slated to receive increased funding relative to the prior fiscal year with just two exceptions. The budget approved by the General Assembly ultimately increased funding for every state department except for Labor and Employment. The three sections that follow discuss the state's demographics, revenue, and spending.

Demographics

Colorado's population growth continues to present both opportunities and challenges for policymakers. While a growing population provides a larger tax base, affordable housing and transportation problems have also accompanied this rapid population growth. The most recent census estimated that the state's population was approximately 5 million residents. The 2017 update places the number of Colorado residents at slightly greater than 5.6 million (Census Bureau 2018). This figure represents an increase of 11.5 percent since 2010 and a 1.2 percent increase since 2016. Of the 223,260 individuals who moved to Colorado in 2016, the Census estimates that 14 percent immigrated from abroad. The size of this group is larger than the number of new residents who moved from any state in the union. Among current U.S. residents who moved to Colorado, the largest shares arrived from California (12.1 percent), Texas (9.3 percent), Florida (6.1 percent), Arizona (5.8 percent), Illinois (5.1 percent), New York (3.9 percent), Virginia (3.2 percent), Missouri (2.8 percent), Georgia (2.7 percent), and North Carolina (2.7 percent). The most popular destinations for Coloradoans moving out of state were California, Texas, Washington, Arizona, and Florida.

Because most of these population gains have occurred along the Front Range and in the Denver metro area, the housing market in the state's largest city remains one of the least affordable in the nation. Among U.S. metropolitan areas, the Denver housing market is the most expensive of any city not located in a coastal state. Median home prices in Denver exceeded the national average by more than $100,000 in 2017, and the average price of a single-family homes sold in Denver exceeded $500,000 for the first time in February 2018 (Svaldi 2018b). Many residents priced out of the home-buying market have also encountered affordability challenges in the rental market.

According to one real estate research firm, apartment rental rates in Denver have increased by nearly 50 percent since 2010. This is the largest increase in rent for any city outside of the San Francisco Bay area. Increased demand for housing units has spurred development in the Denver metro area as evidenced by the construction of 23,000 new apartments between 2016 and 2017 (Svaldi 2018a). A growth in the number of available housing units has increased the vacancy rate in the metro area to 6.4 percent in 2018. This figure is the highest seen in Denver since the 2009 recession. It has also resulted in a modest reversal in the long-term trend of rent increases, as the median monthly rental price in Denver decreased to $1,353 from $1,370 at the end of the third quarter in 2017.

Table 1 reports selected data from the Census Bureau (2017) and Bureau of Labor Statistics (BLS) (2017) for Denver County, Colorado, and the United States. As seen in Table 1, per capita and household income in Denver and Colorado remain above the national average. The OSBP projects personal income in Colorado to outpace the national average of 3.1 percent in 2017 with a 5.4 percent growth rate (2018).

Table 1. Demographic Comparison Table

	Denver County	Colorado	United States
Population	693,060	5,607,154	325,719,178
Population change from 2010	15.5%	11.5%	5.5%
Race and Ethnicity			
White	80.9%	87.5%	76.9%
African American	10.0%	4.5%	13.3%
American Indian	1.9%	1.6%	1.3%
Asian	3.9%	3.3%	5.7%
Hispanic or Latino	30.2%	21.3%	17.8%
Foreign-Born Persons	15.9%	9.8%	13.2%
Per Capita Income	$36,616	$33,230	$29,829
Median Household Income	$56,258	$62,520	$55,322
Median Home Price	$292,700	$264,600	$184,700
Owner-Occupied Housing Unit Rate	49.4%	64.4%	63.6%
Poverty Rate	14.0%	11.0%	12.7%
Bachelor’s Degree or Higher	45.7%	38.7%	30.3%
Unemployment Rate	2.9%	3.0%	4.1%
Civilian Labor Force Participation Rate	70.8%	67.5%	63.1%

Note: Data from the Census Bureau (2018) and the Bureau of Labor Statistics (2018).

The 2017 population estimate for Colorado is slightly greater than 5.6 million people. Colorado remains one of the fastest growing states in the nation, although population growth has slowed during the past year. After reaching nearly 2 percent in 2015, population growth fell to 1.4 percent in 2017. This figure remains twice the national growth rate of 0.7 percent. The state projects the number of residents to increase to 5.8 million by the 2020 Census. For most racial minority groups, the state is less diverse than the nation as a whole. Native Americans are one exception to this, as the share of those with American Indian heritage is slightly greater in Denver County (1.9%) and Colorado (1.6%) compared to their percentage nationally (1.3%). The proportion of residents who identify as Hispanic or Latino is also greater in Colorado (21.3 percent) and Denver County (30.2 percent) than in the entire country (17.8 percent). The Census estimates that 13.2 percent of current U.S. residents were born abroad. Among all Coloradoans, the percentage of foreign-born residents is about 3 percentage points lower, while the percent foreign born residing in Denver County is nearly 3 percentage points greater.

The BLS estimates that Colorado's unemployment rate in December 2017 was 3.0 percent, while Denver's unemployment rate was 2.9 percent (2018). Earlier in 2017, the state unemployment reached a record low of 2.3 percent. This is among the lowest unemployment rates recorded by any state in recent decades. The other six metropolitan statistical areas tracked by the BLS averaged an unemployment rate of 3.4 percent. Fort Collins had the lowest unemployment rate at 2.5 percent. Only two cities had an unemployment rate greater than the national unemployment rate of 4.1 percent—Grand Junction (4.3 percent) and Pueblo (4.7 percent). Personal income growth among state residents reached nearly 8 percent in 2014, but growth slowed over the next two years. This trend reversed in 2017 as personal income growth increased to 5.4 percent. This growth rate exceeds the national rate by more than 2 percentage points (OSPB 2018). According to the OSPB, per capita income and wage growth in Colorado over the past year also outpaced the national figures.

With regard to party registration in Colorado, voters were nearly evenly divided among Democratic, Republican, and unaffiliated categories at the time of the 2016 election. According to voter registration data from the Secretary of State's office, the state had nearly 3.3 million active voters in November 2016. A plurality of these voters registered as unaffiliated (34.6 percent), while the share of Democratic (31.9 percent) and Republican (31.7 percent) were nearly equivalent. In February 2018, the number of active voters decreased relative to November 2016 by about 1.7 percent. This may be partially attributable to controversy surrounding President Donald Trump's Commission on Voter Fraud, which made data privacy a concern after the commission requested, "voluminous information on voters, including names, addresses, dates of birth, political affiliations and the last four digits of Social Security numbers, along with voting history" (Tackett and Wines 2018).

Fifteen months after the 2016 election, the proportion of unaffiliated voters in the state increased to 36.3 percent, while the share of Democrats and Republicans decreased to 31.1 percent and 30.8 percent, respectively (Colorado Department of State 2018). This change is likely driven by primary election reforms approved by voters in the 2016 election. Voters overwhelmingly approved Proposition 107, which adopted a presidential primary in lieu of the existing caucus system, and Proposition 108, which allowed unaffiliated voters to participate in the party primary of their choice. Previously, unaffiliated voters were prohibited from participating in any primary elections or caucus meetings. Because this reform allows unaffiliated voters to participate in the primary of their choosing, it appears that a substantial number of Coloradans changed their party registration status to take advantage of this new opportunity.

Revenue

Colorado's economic trajectory remains generally positive. In late March, the Governor's Office of State Planning and Budgeting (OSPB) released its revised economic forecast. The report summarized the condition of Colorado's economy by stating, "Colorado's economy is on solid footing with strong employment growth and expectations of an ongoing expansion. New business formation continues to grow, while Colorado oil production is at record levels. Although much of the state's economic growth has occurred along the Front Range, stabilizing farmland values and increases in energy prices and production have recently supported rural areas as well. Looking forward, higher costs of living and tight labor market conditions are expected to constrain further growth through the forecast period" (OSBP 2018, 4). The OSPB characterized the 3.1 percent increase in General Fund revenue in the 2016–2017 fiscal year as “modest,” while projecting a larger revenue increase for the 2017–2018 fiscal year of 12.9 percent. According to the OSPB, the revenue forecast for the 2018–2019 fiscal year is projected to grow from $11.6 to $12.0 billion.

The more substantial increase during the 2017–2018 fiscal year is attributable to “strong economic growth, a rebound in corporate income tax receipts, robust investment income gains, and federal tax changes” (OSPB 2018). Regarding the latter, the $1.5 trillion tax reform package signed into law by President Trump in December 2017, among other things, lowered individual income tax rates and nearly doubled the standard deduction for individuals and families. Increasing the standard deduction makes it likely that more tax returns would be filed using the standard deduction instead of itemized deductions. This, combined with reduced tax rates, mean that individuals are likely paying less in federal taxes despite having a larger taxable income. Because Colorado state taxes are 4.63 percent of each individual’s federal taxable income, the state projects to receive greater tax revenue while most state residents can expect to pay less in federal taxes. This is particularly notable in Colorado where TABOR requires any tax increases to go before the electorate for approval in a general election. Accordingly, while the state income tax rate remains unchanged, the tax cut at the federal level in effect imposes a tax increase at the state level as a result of many tax returns reporting a greater taxable income.

Most of the state’s General Fund revenue comes from individual and corporate taxes. The OSPB reports that income tax withholdings increased by more than 9 percent over the past year (2018). Partly because of the new federal tax law, the OSBP claims that there is a “high degree of uncertainty surrounding the forecast for individual income tax collections” (2018, 27). While individual income tax revenues increased by 3.6 percent in the prior fiscal year, the state projects further increases in excess of 13 percent in the current fiscal year. Income tax revenue is projected to grow by an additional 1.7 percent in the next fiscal year. Further good news regarding state revenue collection is that corporate income taxes are projected to grow by 38.6 percent in the current fiscal year after a 21.9 percent decrease last year. This would be the first time in the last five years that corporate tax revenues increased. Likewise, sales tax revenues are projected to grow by 9.6 percent in the current fiscal year and 4.8 percent the following year (OSPB 2018). Part of this increase in sales tax revenue is attributable to the increased special sales tax on recreational marijuana purchases, which increased from 10 percent to 15 percent following the passage of Senate Bill 17-267 in 2017.

According to the OSPB forecast, individual income taxes constitute $7.65 billion of the expected $11.6 billion in general fund revenue for the 2017–2018 fiscal year. Sales and use tax revenue are projected at $3.5 billion. Corporate income tax revenue is expected to provide an additional $0.71 billion (OSPB 2018). These three revenue sources constitute 95 percent of total General Fund revenue. State revenues were relatively stable around the $10 billion mark over the past three years. The $11.6 billion revenue estimate for the upcoming fiscal year represents a 12.6 percent increase, which would be the largest growth in state revenue since 2005 when revenues increased 13.1 percent. Such an increase would be similar in magnitude to the percentage of lost revenue that occurred during the Great Recession (-12.99 percent). Since 2009, individual income tax revenue has increased each year, although not in a strictly linear pattern. Sales and use tax revenue has also increased each year over the past decade. Corporate tax revenue has exhibited greater volatility.

Since the Great Recession when corporate income tax revenue fell to less than $300 million, corporate taxes rebounded over the next five years to greater than $700 million in the 2013–2014 fiscal year. The OSPB cites global economic factors, such as a strong dollar and decreases in oil, gas, and other commodity prices as the catalysts for the three-year decline in corporate tax revenue beginning in 2014. After falling 21.9 percent in the third year of this recent decline, corporate tax revenue is estimated to increase by 38.6 percent in the current fiscal year. In addressing how federal tax reform may affect state corporate tax revenue, the OSPB projects continued growth in corporate tax revenue, but cautions that “future increases will be constrained by higher business costs, especially for employee compensation, which will reduce profit margins and result in lower tax liabilities” (2018, 27).

Taxes from the state’s legal marijuana market continue to grow. According to data released by the Colorado Department of Revenue, total marijuana sales surpassed $1.5 billion in 2017 (2018). Of this total, $1.09 billion in sales came from the retail market, while medical marijuana sales were approximately $0.42 billion. Table 2 reports annual marijuana sales and tax revenue data. Sales have increased each calendar year since the retail market began operation on January 1, 2014, but the growth rate has gradually declined each year. In 2014, marijuana sales totaled nearly $680 million. This figure increased by 45.7 percent in 2015 to $990 million. Sales increased by 31.3 percent and surpassed the $1 billion mark for the first time in 2016 to reach a total of $1.3 billion. Total sales in 2017 amounted to $1.5 billion, which represents a 15.3 percent increase. If the trend continues, Colorado could expect to see sales numbers plateau since the growth rate has decreased by an average of 15 percentage points each year. Sales data through September 2018 indicate sales of nearly $1.16 billion. The monthly sales average for 2018 puts the state on track for an annual marijuana sales total of about $1.54 billion, which would be the largest sales amount to date and constitute a slight increase of 2.4 percent from 2017.

Table 2. Marijuana Sales and Tax Revenue, 2014–2018

Calendar Year	Marijuana Sales	Marijuana Tax and Fee Revenue
2014	$683,523,739	$67,594,323
2015	$995,591,255	$130,411,173
2016	$1,307,203,473	$193,604,810
2017	$1,507,702,219	$247,368,473
2018*	$1,157,781,963	$223,300,334

Note: The 2018 sales data are from January through September 2018. The 2018 tax and fee data include January through October 2018. Data are from Colorado Department of Revenue (2018).

State revenue from the medical and retail marijuana markets in the form of taxes and fees reached nearly $250 million in 2017. This is a 27.8 percent increase from 2016 following a 48.5 percent increase in tax revenue from 2015 to 2016. During the first 10 months of 2018, the state reported tax and fee revenues of $223 million. A linear projection of tax revenue for the remainder of the year suggests that the annual tax revenue would reach nearly $268 million, an increase of about 8 percent from the prior year. The largest annual increase in marijuana tax revenue occurred in the second year after retail sales became legal when tax revenue nearly doubled (92.9 percent).

Increasing sales have driven greater tax revenue, and the state legislature modified the marijuana tax structure in the prior session with the passage of Senate Bill 17-267. From January 1, 2014 through June 30, 2017, retail marijuana sales were subject to the state's 2.9 percent sales tax and a special 10 percent sales tax in addition to local sales taxes. Beginning on July 1, 2017, marijuana sales are exempt from the state sales tax and are instead taxed at a special tax rate of 15 percent. A 15 percent excise tax also applies to retail marijuana sale from cultivation facilities to dispensaries for manufacturers. According to the Joint Budget Committee, marijuana tax revenue from the most recent fiscal year was allocated as follows: 49.4 percent to the marijuana tax cash fund, 39 percent to several K-12 education funds, 6.7 percent to local governments, and 4.9 percent to the General Fund.

Spending

Governor Hickenlooper's November letter to the JBC highlighted education and the criminal justice system as two areas where additional investments were necessary (2017). The proposed and enacted funding levels for state departments and changes from the prior year's budget are reported in Table 3. In total, the General Fund budget request is $11.5 billion, which is an increase of $292.1 million from the prior year. This represents a 2.1 percent increase, while total fund spending is proposed to increase by 3.7 percent to $30.5 billion. The budget signed by the governor into law on April 30 authorized a General Fund budget of $11.42 billion and $30.63 billion in total fund spending (Joint Budget Committee 2018).

As the data reported in Table 3 indicate, the governor's budget proposes increasing the funding levels of all state department relative to last year, exempting the Department of Local Affairs and Department of Labor and Employment. The final budget ultimately increased the funding levels for all state departments except for Labor and Employment. The median proposed increase is 5.1 percent, while the enacted budget imposes a median departmental spending increase of 5.7 percent. In addition to funding existing government programs, the governor's budget proposed new spending initiatives for the Department of Health Care Policy and Financing ($98.2 million), Higher Education ($86.9 million), K-12 Education ($84.6 million), Department of Corrections ($57.8 million), and Department of Human Services ($60.2 million), in addition to an increase in the General Funds reserve ($154.6 million).

Table 3. Proposed and Enacted Colorado General Fund Appropriations, FY 2018–19

Department	FY 2017–18 Spending	FY 2018–19 Requested (% change)	FY 2018–19 Enacted (% change)
Agriculture	10.51	11.07 (5.4)	11.11 (5.7)
Corrections	769.19	827.00 (7.5)	810.88 (5.4)
Education	4,102.17	4,186.79 (2.1)	4,180.29 (1.9)
Health Care Policy and Financing	2,822.80	2,921.02 (3.5)	2,904.58 (2.9)
Higher Education	894.91	981.84 (9.7)	1,003.59 (12.1)
Human Services	866.96	927.14 (6.9)	982.59 (13.3)
Judicial	513.00	539.65 (5.2)	553.07 (7.8)
Labor and Employment	21.38	18.50 (-13.5)	19.48 (-8.9)
Law	16.21	17.30 (6.7)	16.61 (2.5)
Legislative	48.28	50.75 (5.1)	50.29 (4.2)
Local Affairs	32.09	31.91 (-0.6)	37.09 (15.6)
Military and Veterans Affairs	10.53	10.78 (2.4)	11.11 (5.5)
Natural Resources	30.86	31.98 (3.6)	32.01 (3.7)
Personnel	12.50	14.62 (17.0)	14.07 (12.6)
Public Health and Environment	48.80	50.03 (2.5)	52.02 (6.6)
Public Safety	123.45	126.34 (2.3)	183.11 (48.3)
Regulatory Agencies	1.84	1.95 (5.6)	1.95 (5.9)
Revenue	107.60	111.67 (3.8)	113.27 (5.3)
Treasury	151.45	166.37 (9.9)	400.33 (164.3)

Note: Numbers reported are in millions. Data are from Governor Hickenlooper's FY 2018–2019 budget request and enacted budget. Numbers in parentheses indicate percent change from 2017–2018 spending levels. Some minor percentage differences are attributable to rounding.

Relative to last year's budget, Governor Hickenlooper's budget request for the 2018–2019 fiscal year is much more optimistic. This positive tone is a product of a good economic climate and the successful passage of a major budgetary reform in the prior session. Transitioning hospital provider fees into a government enterprise fund made these funds TABOR exempt. In the 2016–2017 fiscal year, hospital provider fee revenue was $654.4 million. In future years, these funds do not count toward the TABOR revenue cap. The governor emphasized the importance of this reform by noting that "The passage of S.B. 17-267 has materially and positively changed the State's financial outlook compared with one year ago, when the request had to close a $500 million funding gap in the General Fund" (Hickenlooper 2017). Beyond this important budgetary reform, Governor Hickenlooper also lauded the strong upward trajectory of the state's economy by claiming, "Colorado's economy continues to outperform nearly every state and the national economy overall" (2017). Statewide unemployment remains low and job creation numbers are strong—approximately 53,000 new jobs are projected for 2018. As the state's population continues to grow, Hickenlooper's budget request reflects spending priorities to address increased demand for certain state services.

Increases in education spending are one of the most notable aspects of the budget request. K-12 spending is proposed to increase by $84.6 million, which represents an increase of $343.38 per student. According to state estimates, the 178 school districts in Colorado currently serve the educational needs of more than 865,000 students. The Department of Education projects that enrollments will grow by 0.7 percent in the current fiscal year. The education budget request remarks that "additional funding proposed by the Governor will allow local districts and charter schools to decide how to best improve the education opportunities of their students." As required by Amendment 23, the inflationary increase to the State Education Fund amounts to $8.9 million. The Department of Education proposed to allocate much of this increase to "categorical programs," which are educational initiatives tailored to specific groups of students including those with disabilities, ESL students, at-risk students, and gifted and talented students, as well as specialized programs such as technical training, health education, and school transportation. The final budget included funds to support many of these initiatives with a $78.12 million increase in spending from the prior year. This number is below the increase requested in the governor's budget, but does represent an investment in education when many competing priorities exist.

In dollar amounts, the proposed increase in higher education funding is similar to that for K-12 education. Increasing higher education spending by $86.9 million is almost a 10 percent increase from the current fiscal year's funding level. Among the notable initiatives in the higher education budget are $73.1 million to improve college affordability and outcomes. This includes a $59.1 million allocation to state college governing boards "to address affordability for all students by moderating higher education tuition increases" (Hickenlooper 2017, 5). Additional funds indirectly distributed to students include $13.9 million for need-based financial aid and work-study programs and $4.0 million for the Colorado Opportunity Scholarship Initiative. The budget also includes lines for new programs such as the $1.5 million proposed for an Emergency Completion and Retention Grant, which is a one-time benefit for students experiencing an unexpected financial hardship, and $5.0 million for a new Occupational Credential Capacity Grant program, which supports "high-demand post-secondary certificate credentials." The General Assembly elected to fund these college affordability efforts, among other programs, by providing more funding than the governor's budget requested. The final appropriation for Higher Education was in excess of $1.0 billion, a 12.1 percent increase, which is greater than the governor's requested increase of 9.7 percent. In dollar amounts, this increased outlay is among the largest in the approved budget after the $115 million increase approved for Human Services.

After K-12 education, health care spending represents the second largest budgetary outlay. Similar to the education budget, legislators approved health care funding at a level slightly less than Governor Hickenlooper's request. The Department of Health Care Policy and Financing is slated to receive increased General Fund appropriations totaling nearly $100 million, despite an expected decline in the state's Medicare caseload. Among the new spending initiatives regarding health care include $89.4 million for Medicaid, the Child Health Plan Plus

(CHP+), and the Medicare Modernization Act. Provider rate adjustments proposed in the budget total $10.3 million, which constitute a standard increase of 0.77 percent. The final budget increased health care spending by $81.8 million (2.9 percent).

In percentage terms, the department with the largest proposed budget increase is Personnel at nearly 17 percent. Most of this proposed increase is allocated to replace nearly 800 state vehicles. Funds were also included to hire six full-time employees to assist with the state archives and the address confidentiality program, which assists individuals who have experienced domestic violence. The legislature approved an increase about 12.5 percent, which is the fifth largest increase in the final budget. Departments with an increase in spending in excess of this amount, which were greater than the governor's proposals, include Treasury, Public Safety, Local Affairs, and Human Services. As seen in Table 3, the largest deviation from the governor's proposal is the substantial increase in Treasury spending. This increase is primarily attributable to $225 million in approved appropriations from a separate bill (Senate Bill 18-200) as an unfunded liabilities distribution to PERA. Conversely, the department with the largest proposed cut to its budget is Department of Labor and Employment, which the governor's budget request proposes to reduce by 13.5 percent. The approved budget for Labor and Employment imposes a cut of 8.9 percent, which is the only department's budget reduced by the General Assembly for this fiscal year. While not reducing the budget from the prior year, data reported in Table 3 show that legislators ultimately provided less funding than the governor proposed for six departments, while the remaining 13 departments received funding in excess of Governor Hickenlooper's request.

Similar to previous years, other departments with large budgets include Human Services ($982.59 million), Corrections ($810.88 million), and the courts ($553.07 million). The Human Services budget proposed salary increases for staff ($21.2 million) as well as imposing a 1 percent increase in community provider rates ($4.8 million). The budget also proposed nearly $10.0 million in General Fund spending for the Office of Behavioral Health, which provides numerous services including court-ordered health evaluations and outpatient treatment. The proposed correctional budget sought additional funds to address capacity issues since the prison population is projected to increase slightly next year in a modest reversal of an overall downward trend. More than $18.0 million is slated to go toward a variety of health-related programs providing treatment and benefits to current prisoners. Nearly $2 million would be used to hire 14.5 additional full-time employees with the Colorado State Patrol. The department justified the need for additional highway patrol officers in order to reach their goal of equally dividing officer time between reactive and proactive policing. An additional $1.2 million from marijuana tax revenue will fund a special unit within the Colorado Bureau of Investigation to investigate illegal marijuana trafficking.

Conclusion

An updated letter from Governor Hickenlooper to the JBC on March 19, 2018 stated that the revised economic forecasting data indicated an additional $548 million available to for state legislators to spend. The governor's office proposed allocating nearly half of this amount to transportation needs across the state. Transportation funding has been a source of controversy in recent years, as the legislature appeared to have the votes to refer a modest tax increase to voters for consideration in the prior election year. However, a small group of Republicans in the Senate blocked the measure from progressing out of committee. Transportation funding remains one of the key issues on the legislature's agenda as the session moves toward a close.

As in 2017, Governor Hickenlooper's final State of the State address called for a transportation tax to be placed on the fall ballot. Last year, the General Assembly came close to referring a measure to the voters that would increase the state's sales tax from 2.9 percent to 3.52 percent. This revenue would be used to secure bonds for local and statewide transportation projects. The referendum passed the House with all Democrats voting in favor in addition to four Republicans. Although it appeared likely that the measure would similarly pass in the Senate, it was defeated in committee. Governor Hickenlooper encouraged lawmakers to revisit the transportation tax increase in the current session by arguing, "We need to be even more ambitious. It's time we look at a long-term solution with a sustainable funding source. There's broad agreement — across party lines. Coloradans deserve the opportunity to vote on whether we need new resources and where they should come from. It's time to go to the voters" (Hickenlooper 2018). The legislature is currently considering a number of alternatives, but it appears likely that the parties will reach some type of funding agreement soon.

The current compromise will likely involve a one-time spending allocation to transportation as the governor proposed along with an agreement to defer any ballot measure to increase taxes for transportation funding to 2019 or beyond (Paul 2018b). However, it is possible that a citizen's initiative to raise transportation taxes may nonetheless qualify for the ballot. Coloradans are generally not supportive of such proposals. Voters rejected increased cigarette taxes in 2016, and Coloradans twice opposed income and sales tax increases to fund education in 2011 and 2013. Neither outcome was close. In fact, since TABOR was ratified into the state's constitution in 1992, no proposed tax increase on the statewide ballot has passed with the exception of an increase in cigarette taxes when the electorate approved Amendment 35 in 2004. Voters did, however, approve the tax levels for the new retail marijuana market in 2013. If the transportation tax initiative is delayed for at least another year, there will be a different governor in office when voters decide whether the addressing state's transportation problems merit a tax increase. Based upon the party's positions in the legislature, one would expect that the Republican candidate for governor would oppose a transportation tax increase, while a Democratic candidate would likely campaign in support of the measure.

The 2018–2019 state budget provides substantial financial investments in existing and new programs across a wide array of policy areas. Governor Hickenlooper identified education, transportation, and corrections as among the issues worthy of greater funding. A General Fund budget of $11.42 billion exceeds the budget from the prior fiscal year by nearly 8 percent. This increase in spending is made possible by a confluence of factors including a strong economy, federal tax reform, and state budgetary reform from the prior year affecting how the hospital provider fee pertains to the requirements imposed by TABOR. Yet TABOR remains, as its creators intended, a powerful vehicle to limit government revenue and spending. While the state budget increases funding for nearly every state department, a prosperous economy would normally allow for even greater investments in areas of need. Sustained population growth has expanded the tax base, but the state government remains restricted in the amount of revenue it can collect and spend. Citizen initiatives to increase taxes for education and transportation will appear on the ballot in the 2018 midterm election, but Coloradans have rarely demonstrated a willingness to increase taxes. Accordingly, the constraints imposed by TABOR have curtailed even greater investments in state programs that a strong economy and budgetary reform have helped facilitate.

Works Cited

Berry, Michael J. 2016. "Guns, Grass, and God's Wrath: Colorado's Budget, Politics, and Elections in 2014." *California Journal of Politics and Policy* 8(1): 1–10.

Berry, Michael J. 2017. "Colorado: Budgetary Reform to Capitalize on Economic Growth." *California Journal of Politics and Policy*. 9(4): 1–10.

Bureau of Labor Statistics. 2018. "Local Area Unemployment Statistics." Available: https://www.bls.gov/lau/.

Colorado Department of Revenue. 2018. "Marijuana Sales Reports." Available: https://www.colorado.gov/pacific/revenue/colorado-marijuana-sales-reports

Colorado Office of State Planning and Budgeting. 2017. "FY 2018–19 Budget Request." November 1. Available: https://sites.google.com/a/state.co.us/ospb-live/.

Colorado Office of State Planning and Budgeting. 2018. "The Colorado Outlook: Economic and Fiscal Review." March 19. Available: https://sites.google.com/a/state.co.us/ospb-live/live-form.

Colorado Department of State. 2018. "2018 Voter Registration Statistics." Available: http://www.sos.state.co.us/pubs/elections/VoterRegNumbers/2018/February/VotersByPartyStatus.pdf

Hickenlooper, John. 2017. "FY 2018–19 Budget Letter." November 1. Available: https://sites.google.com/a/state.co.us/ospb-live/.

Hickenlooper, John. 2018. "State of the State Address Transcript." Available: https://www.colorado.gov/governor/2018-state-state-address

Eason, Brian. 2017. "Why the newly passed federal tax cut will mean higher state taxes for some in Colorado." *Denver Post*. December 20.

Frank, John and Brian Eason. 2018. "A look at the top 8 issues for the 2018 legislative session in Colorado." *Denver Post*. January 9.

Joint Budget Committee. 2018. "Appropriations Report, Fiscal Year 2018–19." Available: http://leg.colorado.gov/sites/default/files/fy18-19apprept_0.pdf

Magellan Strategies. 2018. "Colorado 2018 Governor Democrat Primary Survey Release." Available: http://magellanstrategies.com/colorado-2018-governor-democrat-primary-survey-2/.

Paul, Jesse. 2018a. "Coloradans would be able to carry concealed weapons without a permit under measure that passed GOP-controlled state Senate." *Denver Post*. March 8.

Paul, Jesse. 2018b. "Colorado lawmakers scrambling to find last-minute transportation funding deal as Senate barrels toward a vote." *Denver Post*. March 21.

Paul, Jesse. 2017. “Colorado’s driver’s license program for immigrants already has problems, and they’re about to get worse.” *Denver Post*. July 10.

Regional Transportation District. 2018. “Facts and Figures.” Available: http://www.rtd-denver.com/factsAndFigures.shtml.

Svaldi, Aldo. 2018a. “Metro Denver apartments fall again, as new construction marches on.” *Denver Post*. January 19.

Svaldi, Aldo. 2018b. “Average price of a single-family home in metro Denver passes half-million dollar mark.” *Denver Post*. March 5.

Tackett, Michael and Michael Wines. 2018. “Trump Disbands Commission on Voter Fraud.” *New York Times*. January 3.

United States Census Bureau. 2018. *QuickFacts.* Available: https://www.census.gov/quickfacts/.

United States Census Bureau. 2018. “State-to-State Migration Flows.” Available: https://www.census.gov/data/tables/time-series/demo/geographic-mobility/state-to-state-migration.html.