DOING MORE WITH LESS: STATE REVENUE LIMITATIONS AND MANDATES ON COUNTY FINANCES

COLORADO COUNTIES

NO. OF COUNTIES • **64**

TOTAL POPULATION, 2015 • **5.5 MIL**

TOTAL LAND AREA • **103,642 MI²**

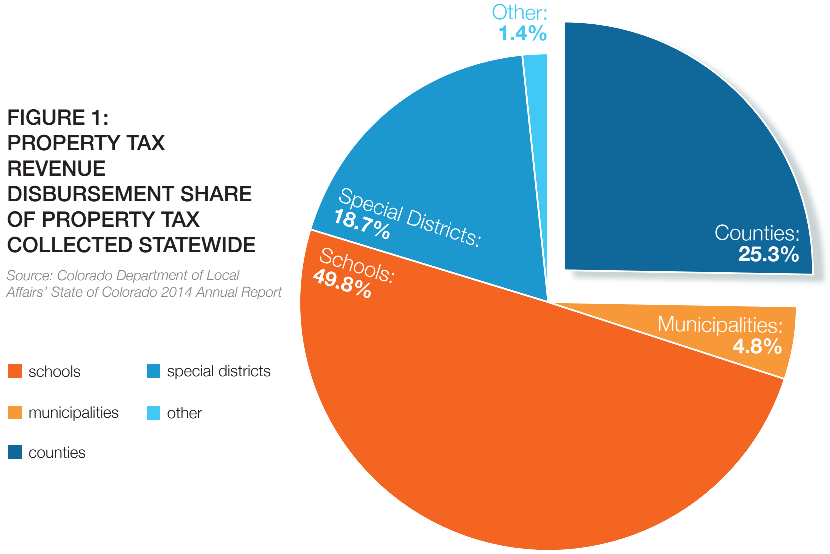
% PILT ENTITLEMENT LAND, 2016 • **35.7%**

TOP COUNTY GENERAL REVENUE SOURCE, 2013 • **PROPERTY TAXES**

Source: NACo County Explorer Data, 2016

FIGURE 1: PROPERTY TAX REVENUE DISBURSEMENT SHARE OF PROPERTY TAX COLLECTED STATEWIDE

Source: Colorado Department of Local Affairs' State of Colorado 2014 Annual Report



COUNTY REVENUE AUTHORITY

COUNTY OWN FUNDING

- **Property Taxes:** According to NACo's analysis of 2013 audited county financial statements, the primary source of general revenue for Colorado counties is property taxes. Under state statute, Colorado counties have the authority to levy real and tangible personal property taxes. Counties reassess property values every two years to keep property values up to date. The majority of property taxes collected in Colorado go to schools (49.8 percent). Counties keep only 25.3 percent of collected property taxes (See Figure 1).
- **Sales and Use Taxes:** Counties in Colorado can also levy general sales and use taxes, as well as special purpose local option taxes for transportation, water management and health care, among others.

TABLE 1: STATE LIMITATIONS ON COUNTY REVENUES, AS OF NOVEMBER 2016

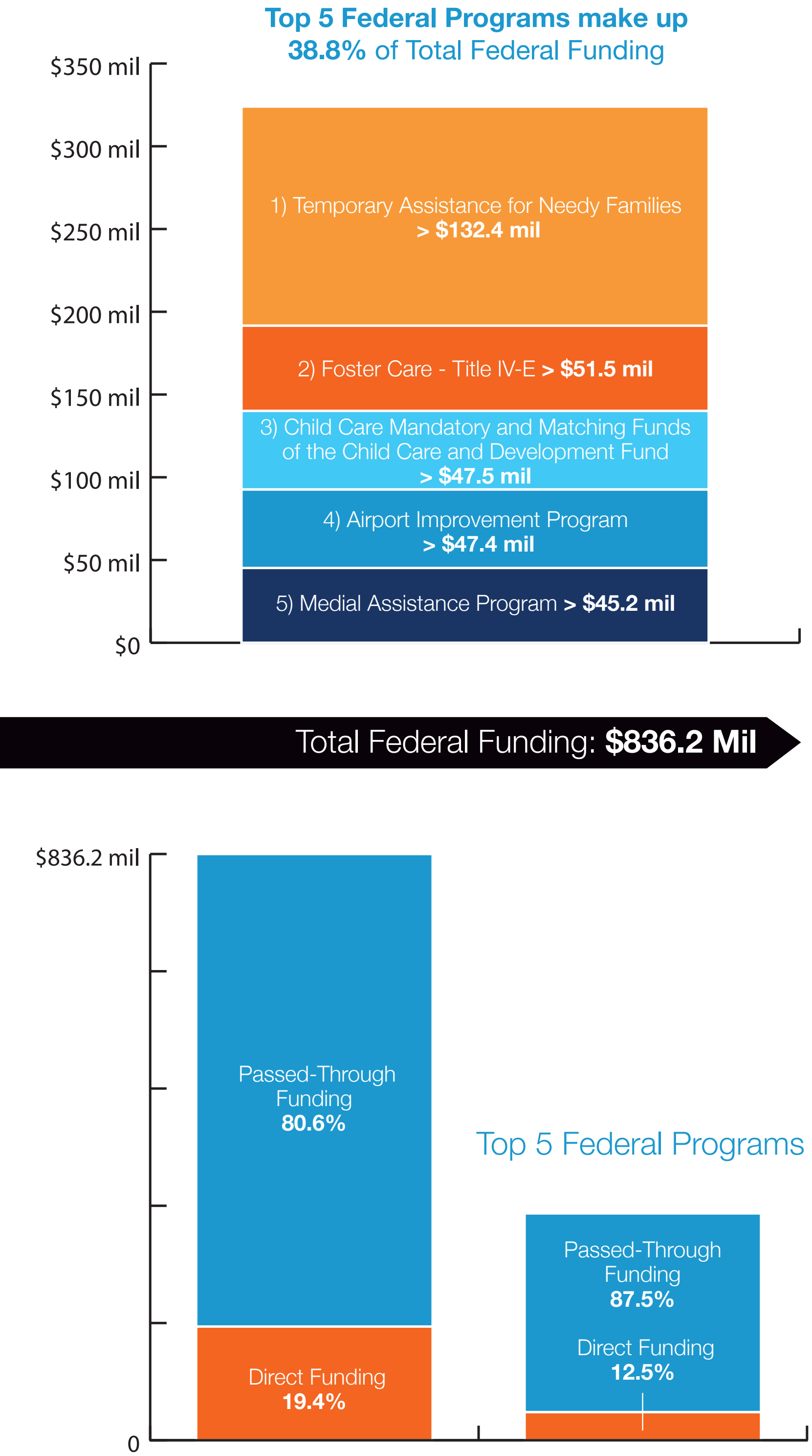
Property Tax Rate Limits	Yes
Limits on Property Assessment Increases	Yes
Limits on Property Tax Revenue (Levy) Increases	Yes; 5.5%
Personal Property Tax Authority	Yes
Local Option Sales Tax Authority [Limit]	Yes [1%]
Authority to Create Special Tax Districts	Yes

- **Other Taxes:** In addition to property and sales taxes, Colorado county governments can levy excise taxes on alcohol and on transient lodging, but the county must use the latter tax for tourism purposes. Automobile owners must also pay a $1.50 registration fee to the county for the construction and maintenance of roads. Finally, the county can charge fees for the operation of any public safety, public health, emergency management or solid waste disposal site.

LIMITATIONS

- **Property Tax Limits:** Colorado is one of the most restrictive state in the nation because of its Taxpayer Bill of Rights (TABOR) – a citizen's initiative from the early 1990s that is now part of the state's constitution. TABOR includes a stipulation that no government can raise taxes without voter approval; this stipulation applies to all revenue streams, making local governments constantly accountable to voters.

FIGURE 2: 56 OF COLORADO'S 64 COUNTIES USED MORE THAN $836.2 MILLION IN FY2014: Counties that reported using more than $500,000 in federal dollars in FY2014.



Source: NACo analysis of Federal Audit Clearinghouse data.

Additionally, TABOR limits property tax revenue growth to the lesser of an amount measured by (a) the combination of the inflation rate and local population growth or (b) 5.5 percent, the initial levy limit enacted in 1913. Counties may exceed this levy limit only with voter approval. One additional limitation is the "Gallegher Amendment" to the state constitution which requires that exactly 45 percent of the total amount of state property taxes come from residential property. The remaining 55 percent must come from commercial property. This amendment also requires that the commercial assessment rate be fixed at 29 percent of the property's market value; the residential assessment rates are then adjusted to maintain this 55/45 percent split. This limits the capability of local government to generate property tax revenue from residential properties.

SPECIAL DISTRICTS

- Colorado counties may establish special taxing districts to pay for local improvements, but these special districts are subject to the same property tax restrictions as counties. Cemetery and library districts are two examples of common popular special districts. Counties generally establish special districts in conjunction with other local governments, like cities or other counties. Although county boards can create special districts, these special districts cannot levy taxes without voter approval.

STATE AND FEDERAL FUNDING

Colorado counties receive funding from both the state and the federal government. According to the U.S. Census of Governments' most recent data, intergovernmental revenues from the state and federal governments comprised 20.3 percent of total county revenues in 2012.

STATE FUNDING

Counties receive funding from a variety of state sources. For example, the state shares a portion of the state sales and use tax, as well as the state tobacco tax, with counties. Furthermore, counties receive a portion of the state severance tax on the extraction of minerals and mineral fuels.

FEDERAL FUNDING

Colorado counties receive federal government funding, either directly or passed-through other entities, such as the state government (called here, "passed-through funds"). According to the single audits submitted annually by counties that used more than $500,000 in federal dollars in a fiscal year, 56 of Colorado's 64 counties used more than $836.2 million in federal dollars in FY2014. Passed-through funds accounted for over three-quarters (80.6 percent) of this total. Over one third (38.8 percent) of the federal funding came from the top five federal programs used by Colorado counties (see Figure 2).

Other noteworthy federal programs that disburse funding directly to Colorado counties include the following: the Secure Rural Schools (SRS) program to support critical services in counties experiencing severely reduced federally restricted timber harvests revenues ($11.8 million in 2015); Community Development Block Grants (CDBG) for enabling direct entitlement counties to improve their local communities through development and infrastructure projects by partnering with businesses and non-profit organizations, as well as other U.S. Department of Housing and Urban Development (HUD) programs ($18.2 million in 2016); the State Criminal Alien Assistance Program (SCAAP), to cover a portion of the costs for incarceration of undocumented criminal aliens ($1.3 million in 2015); and Payments in Lieu of Taxes (PILT), distributed by the federal government to Colorado counties as compensation for 23.7 million acres of federal land located in county borders ($35.6 million in 2016).

CHALLENGES AND SOLUTIONS

CHALLENGES

TABOR remains one of the principal challenges to Colorado county finances. by subjecting all increases in taxes to voter approval. County governments must appeal to voters not only for rate increases, but also for any revenue growth in excess of the local growth formula. Approval of this revenue growth is required even if these revenues are derived from existing rates, since TABOR limits any increases in reserves funds. Moreover, TABOR applies to state government too, limiting state revenues. Counties provide many services on behalf of the state, such as human services, jails, and transportation; these services partially rely on state funding reimbursement—funding which is negatively impacted by TABOR limits on state government revenue sourcing. Compounding this challenge is Colorado's bipartisan political atmosphere: since Colorado's governor is a Democrat, its senate is Republican and its house is Democrat, it is especially difficult for counties to ask for increased funding when needed.

SOLUTIONS

Some counties in Colorado have sought to supplement their revenue streams by partnerships. Counties partner with other counties or other public entities to provide 911 services and fire protection. Counties also partner with private organizations to provide child welfare or other human services. Overall, Colorado has a very restrictive environment for counties, so counties do not have many options to increase their revenue streams without voter approval.