

Aug. 31, 2011

Summary of Phase 2 Findings

Financing Colorado's Future: An Analysis of the Fiscal Sustainability of State Government



Twelve years from now, Colorado will generate only enough sales, income and other general-purpose tax revenue to pay for the three largest programs in the General Fund – public schools, health care and prisons. There will be no tax revenue for public colleges and universities, no money for the state court system, nothing for child-protection services, nothing for youth corrections, nothing for state crime labs and nothing for other core services of state government.

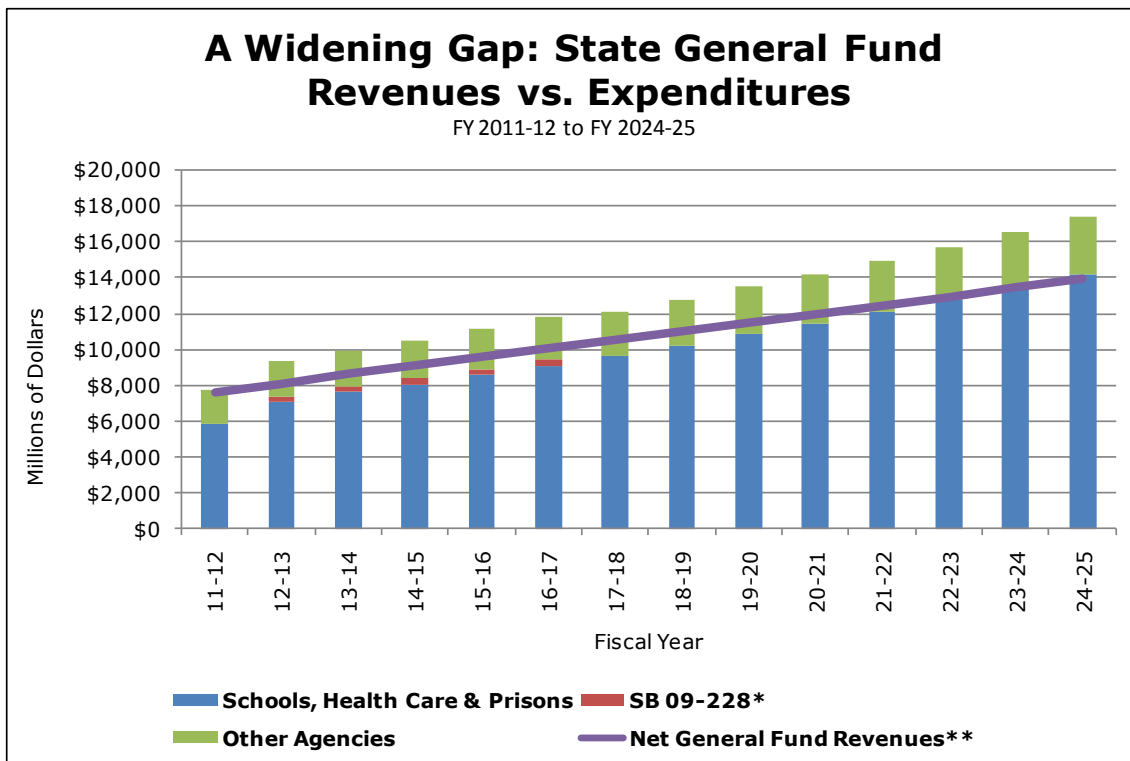
That is the magnitude of the structural imbalance facing the state unless policymakers and voters find a way to bridge an ever-widening chasm between forecast expenditures and revenues. Models developed by the Center for Colorado's Economic Future show that projected spending for all programs in the General Fund will exceed projected revenues by nearly \$3.1 billion in FY 2023-24. The state will collect approximately \$13.4 billion in net General Fund taxes in that year, matching its funding obligation for K-12 education, Medicaid and corrections but allowing for no additional spending. In the following year, FY 2024-25, the three largest programs will need even more revenue than the state is expected to take in, widening the difference between total spending and tax collections to nearly \$3.5 billion.

The enormity of this gap suggests that Coloradans consider both tax increases and spending cuts to fill it. Cutting programs to match revenues, without changing the structure of the current tax system, is unrealistic. While this study did not specifically examine how expenditures for each department could be trimmed, the degree of cuts necessary to rectify the structural imbalance likely prohibits an all-cuts solution. Health care and human services, the second- and fifth-largest programs in the General Fund, cannot be substantially reduced without raising costs in other areas, sacrificing federal funding, risking litigation or jeopardizing the welfare of some of the neediest

Coloradans.

Deeper cuts to K-12 education, the largest General Fund program and 40 percent of the total, eventually would violate the provisions of Amendment 23.

Modest rate increases alone also will not solve the long-term problem. Restoring income and sales tax rates to their 1999 levels (5 percent and 3 percent, respectively)



*Diversion for reserve, transportation and capital construction.
**Includes General Fund revenues diverted to the State Education Fund.

would raise an extra \$900 million in FY 2024-25, about a quarter of what will be needed to balance revenues and expenditures in that year. Bridging the gap is possible with a graduated income tax structure or a combination of revenue changes, but Coloradans would have to accept significantly higher state taxes. As an illustration, the state could collect an extra \$3.3 billion in FY 2024-25 by taxing lower-income households at the current rate of 4.63 percent and applying progressively higher rates to households making more money, with 8 percent as the highest rate. **[INTERACTIVE GRAPHICS: Experiment with the Center's revenue models at www.du.edu/economicfuture/bridgethegap. Create your own scenarios for generating additional tax revenue by changing rates, taxing income by brackets or applying the state sales tax to more services.]**

We realize that a combination of tax increases and spending cuts will be a hard sell – “pay more and get less” is not exactly a politically popular message. But the result will be a sustainable way of funding the core services of state government well into the future.

Colorado's structural budget problems are worse than they appeared during Phase 1 of our analysis of state government finances, the findings of which were released earlier this year. Phase 1 concluded that state expenditures for public schools and Medicaid medical services premiums are growing much faster than General Fund revenues and that, by FY 2024-25, spending for those two programs and the state prison system would leave only 10 percent of General Fund dollars available for all other programs. That 10 percent slice of the budget pie disappeared in Phase 2, when we expanded our analysis to include other programs in the departments of Education and Health Care Policy and Financing. Also forecasting the spending trajectories of *all* General Fund departments, not just the three largest, allowed us to show a structural relationship between total projected expenditures and revenues. ***Note that the numbers in this report and on our website are the product of econometric models that cannot anticipate future business cycles or changes in policy. Thus, they are meant to be illustrative and not definitive.***

The Center's revised revenue projection is based on an April 2011 Moody's Economy.com forecast of long-term national economic trends that was slightly more optimistic than a previous Economy.com forecast at the heart of our Phase 1 report. This analysis, therefore, may overestimate future revenue collections and underestimate the size of the gap. Hopes for a robust economic recovery in the near term have dimmed since April. Another recession or prolonged economic downturn could once again significantly weaken state government revenues. Declining school district property tax revenues would put even more pressure on the General Fund to cover K-12 education costs, and a weak economy could make more people eligible for Medicaid, increasing that General Fund obligation.

Addressing the Gap: Cuts

Because the gap between revenues and spending is projected to be so wide by FY 2024-25 – tax collections will fall short of expenditures by 20 percent – it cannot be addressed with mere belt tightening or across-the-board cuts to state agencies. Closing the gap without increasing revenues could mean eliminating whole programs, perhaps whole departments. If state government were a tree, it could mean lopping off entire branches.

In that case, a wholesale rethinking of state government would be necessary. Should tax dollars continue to subsidize in-state tuition at state colleges and universities? Can we still afford a system to supervise and rehabilitate youthful offenders? What about the state psychiatric hospital for people referred by community mental health centers? What about state enforcement of disease control and clean water regulations?

Any serious attempt to address the gap solely through cuts would recognize that it is not realistic to simply fund the three biggest departments – corrections, education and health care – and eliminate all other General Fund agencies. For one thing, funding for some of these agencies is tied to the receipt of federal funds. Other General Fund functions of state government – the governor, legislature, court system, Attorney General and treasury – are required by the Colorado Constitution. General Fund money appropriated to those departments ranges from a little (\$7.9 million for the treasury in FY 2011-12) to a lot (\$340.2 million for the judicial department in FY 2011-12). It is unclear how much General Fund money could be cut from the judicial department while still maintaining a functional state court system.

Cutting the three largest departments also is problematic. Rising costs within the Department of Corrections already have been slowed by demographic changes and revised sentencing laws. Funding for public schools is bound by the state Constitution. Amendment 23, approved by voters in 2000, requires that base per-pupil funding be increased by the rate of inflation each year. The Public School Finance Act of 1994 adds about 25 percent more funding to recognize divergent characteristics of the state's 178 school districts – enrollment size, cost of living and at-risk student populations. For the last two years, amounts called for by these additional factors have been trimmed significantly, reducing total funding for K-12 education to balance the General Fund budget. Further cuts are limited to this portion of the school finance act because the per-pupil funding base is protected by the constitution. Although these factors add about 25 percent overall, the percentage added in some districts is far smaller. School funding can be reduced by only about 20 percent statewide without cutting into the per-pupil base in those districts.

Achieving major cuts to Colorado's public health care programs, mostly the state share of Medicaid, would be difficult as well. Our forecasts show General Fund expenditures for the Department of Health Care Policy and Financing (HCPF), through which Medicaid funds are appropriated, more than tripling by FY 2024-25, from nearly \$1.8 billion to about \$5.5 billion. The greater part of this spending will be driven by costs associated with the high rate of health care inflation and a burgeoning number of older enrollees, particularly those in need of skilled nursing facilities or home and community care. Medicaid costs for long-term care will swell even further in the years beyond the scope of this study as members of the baby boom generation move into the high-cost 80-and-older age range.

A widely held perception is that large cost savings could be achieved by reducing eligibility for optional Medicaid populations and eliminating optional services covered by Medicaid. The federal health care reform law limits the ability of states to reduce eligibility for populations already covered under Medicaid as of December 2009. Reducing optional services also is limited under federal health care reform, although states can change optional plans, such as prescription drugs, that require recipients to pay more of the costs. Even so, it is unclear whether reducing optional services would save Colorado Medicaid dollars over the long term because many of these programs are designed to save money over more expensive mandatory alternatives or they cover services for the most vulnerable populations. For example, Colorado's most costly optional Medicaid waiver, at more than \$350 million in FY 2010-11, provides home- and community-based services for people with developmental disabilities, many of whom would be at risk of institutionalization.

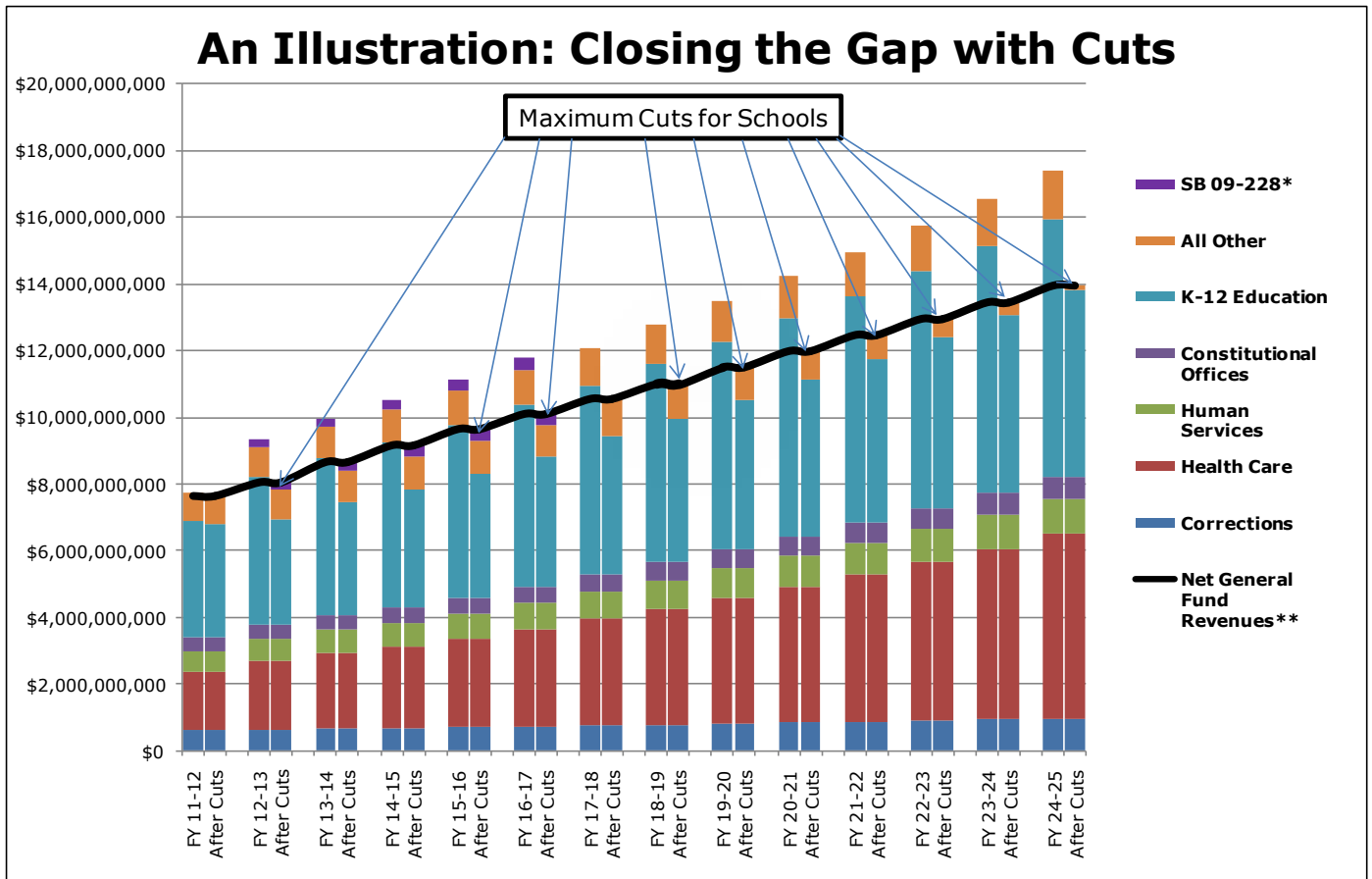
Colorado and other states historically have reduced Medicaid costs by cutting reimbursement rates paid to service providers. While this approach can be part of a temporary budget-balancing strategy, continuous rate reductions cannot be used to address the projected long-term growth in Medicaid costs. Starting in 2013, federal health care reform will require that Medicaid rates match Medicare for physician primary care services. Meanwhile, the federal Center for Medicaid and Medicare Services requires that Medicaid physician payments be sufficient to ensure that Medicaid recipients have the same access to health care services as the rest of an area's population, a requirement that might not be met if the difference between Medicaid rates and those paid by Medicare and private insurers continues to widen.

As with HCPF, it is difficult to envision wholesale cuts within the state Department of Human Services, which was appropriated \$614.6 million from the General Fund for FY 2011-12. Many human services programs are tied to federal programs that require a contribution of state dollars. For example, Colorado must spend \$88.4 million a year to receive a \$140 million federal Temporary Assistance for Needy Families block grant. Likewise, the state must contribute about \$27 million to augment federal Supplemental Security Income payments to some beneficiaries or risk losing hundreds of millions of dollars in federal funds. Nearly one-fifth of the department's annual General Fund appropriation pays for the state Division of Youth Corrections. There is almost no other funding for this agency, which operates detention centers and other programs for juvenile offenders committed to the state system by the courts.

The following scenario underscores the difficulty of cutting spending in amounts sufficient to address the gap

through FY 2024-25. Suppose, for the reasons outlined above, policymakers choose to protect future funding for prisons, health care, human services, the legislature and the courts as well the offices of governor, attorney general and state treasurer (in total about 44 percent of the General Fund). Suppose also that policymakers reduce K-12 education funding as much as needed to balance the budget without touching the per-pupil increases required by Amendment 23. In years when schools have absorbed the maximum 20 percent cut, additional cuts would have to come from the 10 remaining departments: agriculture, higher education, local affairs, military and veterans affairs, natural resources, personnel and administration, public health, public safety, regulatory agencies, and revenue.

Under this scenario, public schools would be cut at least 19 percent in 13 of 14 years from now until FY 2024-25, and they would be cut the maximum amount in 10 of those 14 years. The remaining unprotected agencies would be only slightly affected through FY 2017-18 as schools absorb the bulk of cuts. But from FY 2018-19 on, the other departments would sustain a spiraling amount of reductions. By FY 2024-25, these agencies would need to be reduced by more than 90 percent. This scenario is depicted in the chart below. Note how the turquoise and orange bars get smaller.



*Diversion for reserve, transportation and capital construction.
 **Includes General Fund revenues diverted to the State Education Fund.

This degree of cuts may not be acceptable to many elected officials and citizens. If cuts are made at a more moderate level, revenue increases would be needed to address the remainder of the gap. As noted in our Phase 1 report, revenue increases should be examined two ways: 1) by rebalancing the state and local partnership in funding K-12 education; and 2) by making the state’s general taxes more productive in the future.

Rebalancing the State/Local Partnership in Financing Education

The eroding local share of school funding – it fell from 45.1 percent in FY 1993-94 to 36.2 percent in FY 2009-10 – has placed a significant burden on the state General Fund. This erosion increased state funding by about \$510 million in FY 2009-10 alone. Fully funding the school finance act in FY 2024-25 would drop the local share to about 30 percent, putting even more pressure on state finances. Rebalancing this out-of-balance financial partnership

entails a two-pronged strategy: First, the overall local share must be maintained at the current level or increased; second, structural aspects of the local share must be addressed or it will continue to erode. Maintaining or increasing the local share can be accomplished either by increasing local school district property taxes or continuing to cut the state share to match growth in the local share. The structural aspects causing the local share to erode can be addressed by moving toward a more uniform statewide mill levy for schools.

School finance policy is complex. Financial strategies can be pursued without addressing structural issues and vice versa. But the most effective approach would pursue financial and structural strategies simultaneously to achieve a desired outcome for taxpayers as well as financial stability for the state and school districts.

The following financial options represent the range of strategies identified by the Center:

- **Continue to prorate the state share so that it grows at the same rate as the local share.** The per-pupil base still would rise by the rate of inflation, but overall K-12 education funding would be cut by up to 17 percent annually. The state share would remain at its current level – about 63 percent of the total – saving the state about \$1.8 billion in FY 2024-25.
- **Categorize as “temporary” mill levy reductions that occur when assessed values in some school districts grow faster than limits in the school finance act.** If values subsequently fall in those districts, their mill levies would be raised to previous levels before the state is made to equalize the difference. Our forecasts show that this would raise the local share (alleviating the state share) by about \$144 million in FY 2024-25.
- **Allow the residential assessment rate to “float” upward as originally intended under the Gallagher Amendment.** This would occur in reassessment years when growth in non-residential values is stronger than the growth in residential values. This option, which currently appears to be restricted by a provision of TABOR, would increase the local share by about \$162 million in FY 2024-25 and reduce the state share by that amount.
- **Freeze the state share of school funding at about 63 percent.** This would result in a local property tax increase of \$690 million statewide in FY 2024-25, saving the General Fund the same amount.
- **Phase in a 50/50 sharing of school finance act costs by the state and school districts.** This would increase school property taxes statewide by about \$2.1 billion in FY 2024-25, about 68 percent, and address about 60 percent of the General Fund gap in that year.

Regardless of the financial option chosen, the local share will continue to be inefficient unless repaired. This inefficiency results in some districts having very low mill levies while getting the majority of their school funding from the state.

[**INTERACTIVE GRAPHIC: Visualize the downward slide of school district mill levies at www.du.edu/economicfuture/mill_levies.html.**] Structural remedies could include:

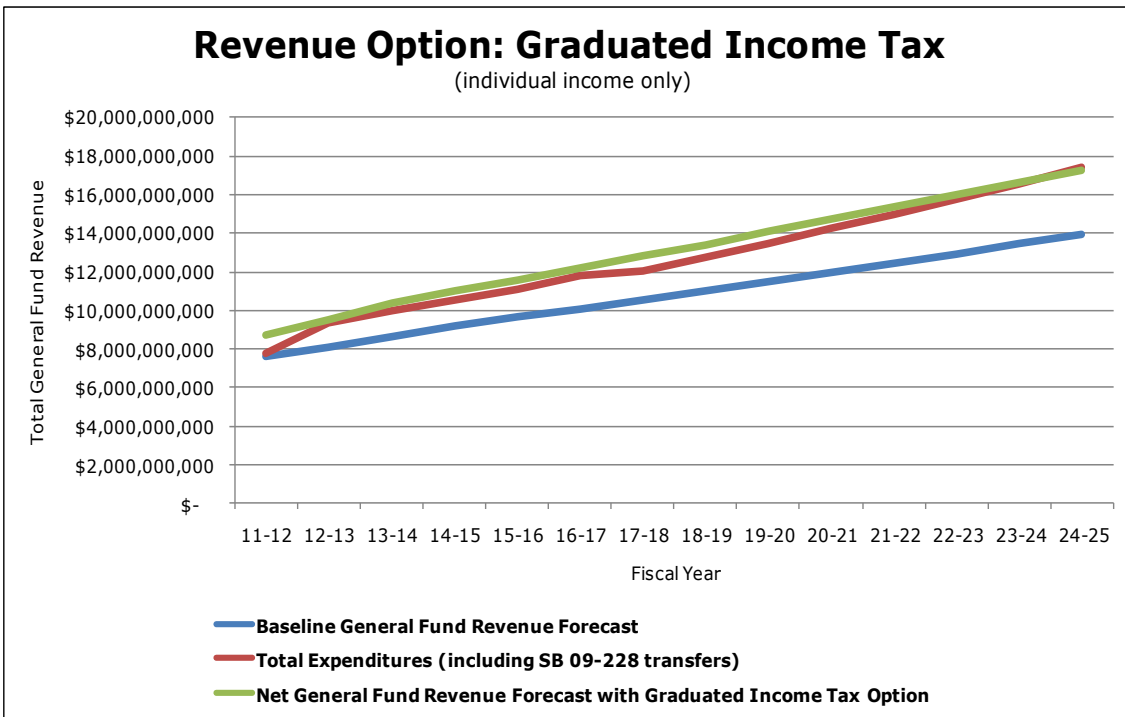
- **A locally imposed mill levy that is uniform throughout the state except in districts with greater property wealth.** Districts with levies below the uniform rate would gradually raise their levies until they reached it or they generated sufficient property taxes to pay for their schools entirely with local revenue. Some districts would continue to levy less than the uniform rate, but would receive no state aid, while districts levying the uniform rate would receive state funding. As this would result in substantial mill levy increases in some districts, phasing in the rate hikes would avert a sudden shock to taxpayers.
- **A locally imposed uniform mill levy, as described above, coupled with a statewide mill levy for schools.** The statewide levy would be the same in all districts and proceeds would be distributed to districts as state aid according to the school finance formula. Under this approach, school districts with more property wealth would tend to contribute more in property taxes than they would with just a locally imposed modified uniform rate. Districts with extremely high assessed values and very low mill levies would be impacted the most. These levy increases also would be phased in.

- **Replacing the locally imposed school district property tax with a state-imposed mill levy.** Millage rates would be uniform throughout the state, regardless of a district’s property wealth. Depending on where the statewide rate is set, levies would drop in some districts and more than quadruple in others. As with the previous two options, a multi-year phase-in period should be strongly considered. Note that the statewide property tax outlined in this option and in the previous option currently is not allowed under TABOR.

Making the State’s General Taxes More Productive

To assess how the revenue/expenditure gap in FY 2024-25 could be narrowed with tax increases as part of the remedy, the Center modeled several scenarios. The size of the gap suggests that only the state’s two biggest revenue resources – income and sales taxes – would generate enough money to make a difference. Doubling excise taxes on cigarettes, beer, wine and spirits, for instance, would raise an extra \$147.5 million in FY 2024-25, about 4 percent of the gap. While this does not preclude the inclusion of these taxes in a comprehensive revenue-raising package, they cannot work as a centerpiece.

Simply raising income and sales tax rates also does not offer a permanent solution to Colorado’s long-term structural deficit because it does not change the slope of the revenue growth curve. While raising rates can generate a lot of additional money, doing this merely shifts the revenue curve upward in a parallel fashion, postponing the year in which expenditures once again outstrip available tax dollars. The Center modeled a scenario in which individual and corporate income tax rates are raised from the current flat rate of 4.63 percent to 5 percent, where they stood in 1999. The model also restores the state sales and use tax rates, currently 2.9 percent, to their 2000 level of 3 percent. Together, these changes would generate an extra \$907.3 million in FY 2024-25, about 26 percent of the gap.



A graduated individual income tax could address the structural problem by taking advantage of Colorado’s greater percentage of taxpayers with incomes above the national average. Taxing higher-income households at higher rates would bend the revenue curve upward if the top bracket grows faster than the overall income base. To illustrate how the FY 2024-25 gap could nearly be closed with a graduated income

tax, the Center modeled a scenario that taxes the first \$50,000 of taxable income at the current rate of 4.63 percent, the next \$50,000 at 5 percent, the next \$100,000 at 6 percent and any income greater than \$200,000 at 8 percent. This would generate an additional \$3.3 billion, closing 97 percent of the gap in FY 2024-25. This scenario, as seen in the chart above, actually would produce more revenue than needed in most years. Colorado had a graduated income tax from 1937 until the flat tax was adopted in 1987.

The Center also modeled the application of the state sales tax to more services, recognizing that Colorado taxes fewer services than most states and that the service sector contributes about 80 percent of economic output in Colorado, as measured by state gross domestic product. Broadening the sales tax base is one way that the revenue growth curve

could be bent upward. The most productive scenario would tax both personal and business-to-business services. Doing this while keeping the sales tax at the current rate of 2.9 percent would raise an extra \$7.6 billion in FY 2024-25, considerably more than twice what is needed to narrow the gap. Extending the sales tax only to personal services would help mitigate tax pyramiding, whereby a product or service is taxed more than once from the producer to the consumer. Doing this at the current rate would generate an additional \$918.3 million, accounting for almost 27 percent of the gap. Extending the sales tax to both personal and business-to-business services, while lowering the rate to 1.12 percent so that no extra money is generated in the first year, would raise \$445.2 million in FY 2024-25. That would close about 13 percent of the gap. None of the above scenarios would tax health care services.

Since 1979, Colorado has exempted from sales taxes food for home consumption as well as residential heat, light and power. Reinstating a sales tax on groceries at the current rate would bring in \$433.1 million in FY 2024-25. Reinstating the tax on home energy would raise \$225.2 million. Assuming no offset for lower-income consumers, the two together would address 19 percent of the gap.

Addressing the Gap: Taxes

The magnitude of the long-term imbalance between projected revenues and spending calls for the state's major revenue streams to be brought to bear on the problem. The following combination of changes illustrates an approach designed to make income and sales taxes more productive and more in sync with economic changes, while eliminating the structural problems underlying the financing of public schools. This approach also would balance the revenue increase among three types of taxes to avoid volatility and fairness concerns with using just one source.

- **Extend the sales tax to personal services.** Keeping the rate at 2.9 percent, the sales tax would not be imposed on health services but would be applied to a wide array of other services, from pet grooming to auto repair and haircuts. Extra revenue in FY 2024-25: \$918.3 million.
- **Reinstate a graduated income tax.** Colorado's pre-1987 graduated income tax ensured that taxpayers would not be pushed into higher brackets solely due to inflationary wage and salary changes. A similar index with four brackets could make the current individual income tax more productive and progressive. The scenario in this package would tax the first \$50,000 of taxable income at 4 percent, the next \$50,000 at 4.7 percent, the next \$100,000 at 5.4 percent, and income in excess of \$200,000 at 6.1 percent. Extra revenue in FY 2024-25: \$1.6 billion.
- **Rebalance and restructure the state/local school funding partnership.** Phasing in a uniform mill levy in all school districts, regardless of wealth, would help alleviate current inefficiencies and inequalities in the local share of school funding. The proceeds of the levy would be distributed to districts based on the school finance formula. This scenario is intended to reduce the state share by FY 2024-25 from about 63 percent to 60 percent. Extra revenue in FY 2024-25: \$1 billion.

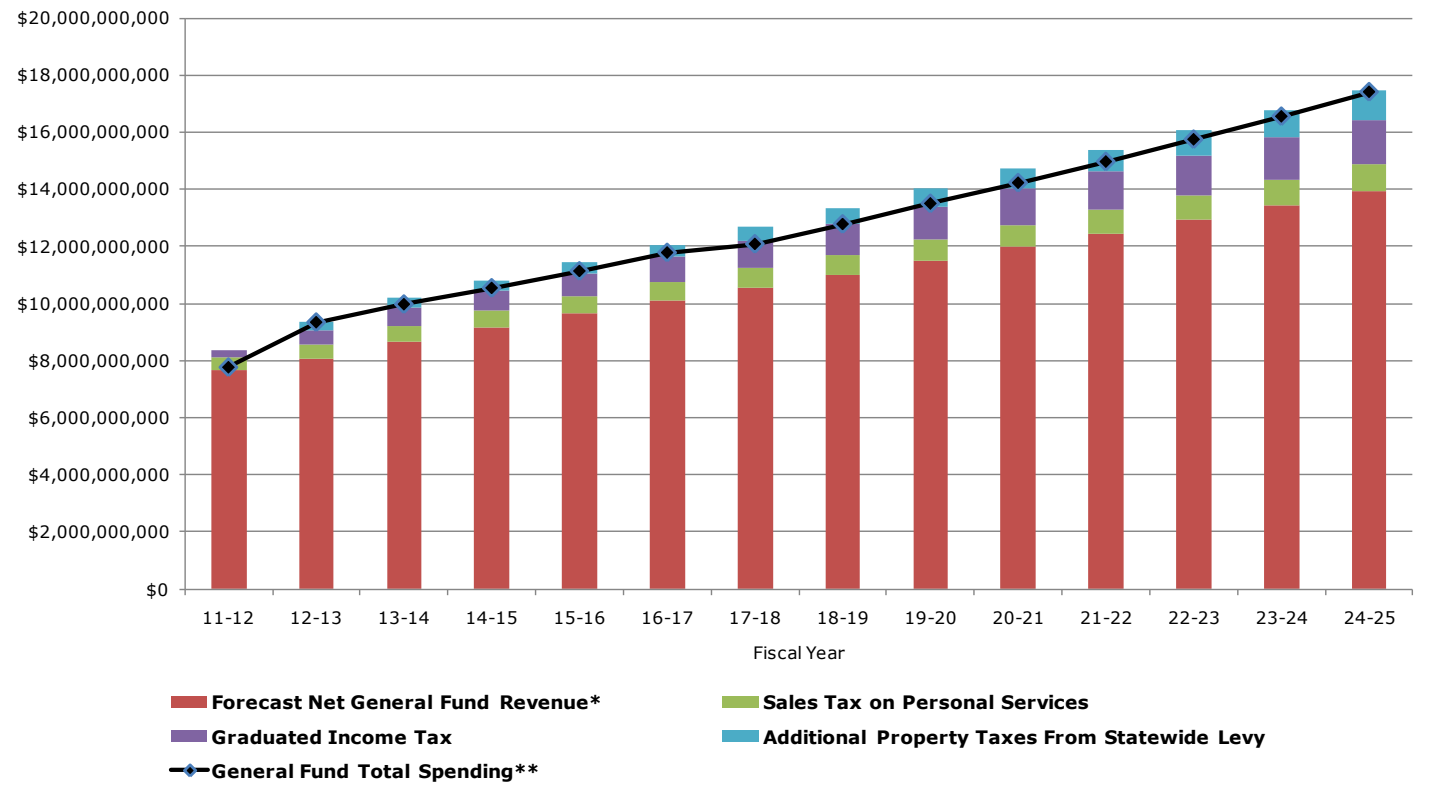
The chart at the top of page 8 shows the effect of these three changes on the General Fund gap.

Staying Healthy: A Budget Stabilization Fund

A comprehensive package that aligns the trajectory of General Fund spending and revenues ought to include an additional budget stabilization fund. Such "rainy day" funds help state governments cushion the impact of economic downturns. Colorado's current statutory reserve amounts to 4 percent of General Fund appropriations in a given fiscal year – about enough to keep General Fund programs going for about two weeks. That clearly was not sufficient to weather the last two recessions, when revenues plummeted as much as 15 percent in a year. SB 09-228 eventually will raise the reserve to about 3¼ weeks of operating expenses – still not enough to endure a severe downturn without making significant budget cuts.

We propose an additional fund that would capitalize on the volatility of Colorado's revenue system, allowing for the capture of extraordinary tax revenue during robust economic times. This money would be put in a savings account for the inevitable periods when revenues fall short, and it could not be used to create programs that impose legacy

An Illustration: Closing the Gap with Taxes



*Includes General Fund revenues diverted to the State Education Fund.

**Includes SB 09-228 diversion for reserve, transportation and capital construction.

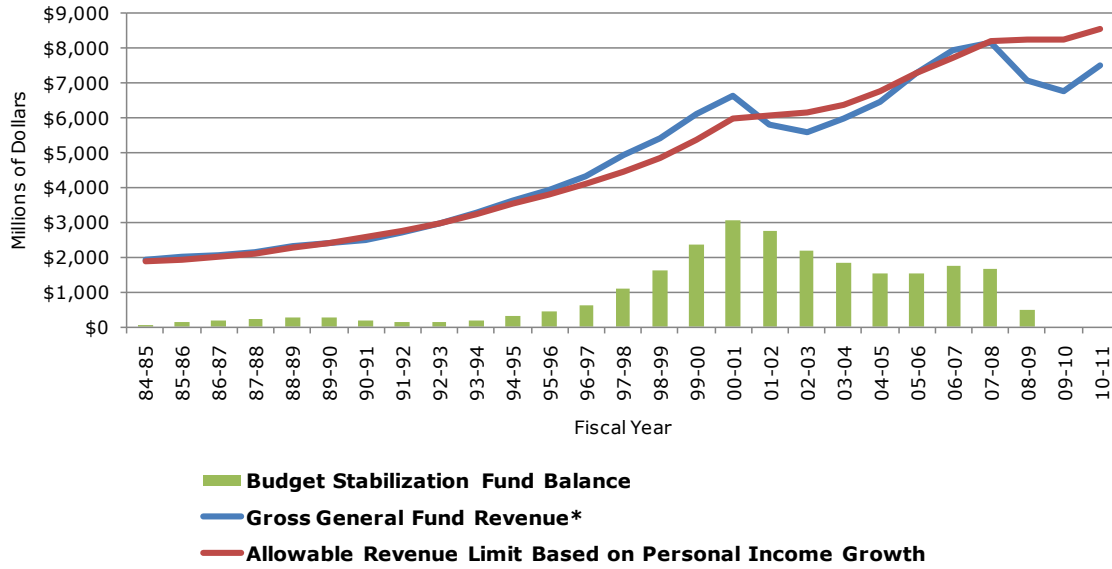
demands on the General Fund. In concept, extraordinary revenue could be defined as the amount by which state tax revenue grows faster than the expansion of the state's economy as measured by personal income growth. Any time the increase in state revenue is greater than the increase in personal income, the extraordinary revenue would be saved. When revenue growth slows to less than growth in personal income, the legislature could appropriate from the rainy day fund.

The chart on page 9 shows the peaks and valleys of General Fund revenue collections back to FY 1984-85 (the blue line) and the percentage growth in revenue available for spending as defined by year-over-year growth in personal income (the red line). The green bars show the accumulation of the Budget Stabilization Fund during periods of growth and disbursements from it during periods of recession. If the rule we propose had been in place from FY 1984-85 forward, the Budget Stabilization Fund would have slowly grown to slightly more than \$3 billion in FY 2000-01, then declined to about \$1.5 billion to cushion the drop in revenue during the first recession of the 2000s. It would have gradually grown to about \$1.8 billion by FY 2007-08 and then completely emptied to cover the shortfalls of the 2009 recession. Note that such a rule, if it had been in effect in the 1990s, would have required changing the constitutional revenue restriction in TABOR. Going forward, however, our forecasts do not anticipate that such a change would be necessary because state revenues are not expected to exceed the TABOR limit.

Staying Healthy: Minding the Store

It is clear from our analysis that revenues will not keep up with General Fund spending obligations over the next 13 years. That is reason enough for state policymakers and staff to regularly look beyond the current year's budget and model the trajectories of revenues and expenditures several years down the road. We fear that policymakers, especially in years when budget crises are at the top of the agenda, may not always consider the long-term consequences of their political decisions. An institutionalized planning/monitoring process would ensure that legislators recognize the long-range fiscal impact of their decisions and continually keep in mind the future cost of Medicaid and other ongoing programs that are affected by demographic shifts and federal actions.

A Budget Stabilization Fund and General Fund Rule



While many state departments have long-term plans, an approach that integrates all appropriated funds would be ideal. We agree with the Government Finance Officers Association, which recommends that governments of all sizes regularly engage in “the process of aligning financial capacity with long-term service objectives.” The GFOA suggests a time horizon of five

to 10 years. The analysis should include everything from revenue and expenditure forecasts to debt positions and monitoring mechanisms such as a scorecard of key indicators of financial health. Most importantly, elected officials and the public should be able to easily grasp the government’s long-term financial prospects and the strategies in place for achieving financial balance.

Conclusion

This summary, to be followed by a more-detailed version, concludes the Center’s analysis of Colorado’s General Fund revenue system and the financial machinery that governs it. Our principal finding is that this system will become increasingly unsustainable through FY 2024-25 and beyond. Elected officials and citizens must make significant changes if Colorado is to achieve financial balance over the long term.

We believe that our General Fund analysis is a good first step toward a comprehensive study of state and local government financing. Next steps should include the following areas of inquiry:

- Business taxation, including corporate income, sales and property tax issues.
- The property tax system that supports schools and local governments.
- The increasing fragmentation of government in Colorado through the creation of special-purpose authorities and government enterprises.
- The financing of local governments, which play a larger role in overall tax burden and public employment than does the state.
- Transportation funding.

Much work remains to be done as we build upon the analytical foundation laid by the two phases of this project.

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Revenue-Raising Options Modeled by the Center

Option	Current Rate	Modeled Increase	Incremental Revenue Raised in 2012 (\$ millions at modeled increase)	Incremental Revenue Raised in 2025 (\$ millions at modeled increase)	Percent of 2025 Gap addressed by revenue option	Effective at Addressing Structural Problem?	Stable Revenue Stream?	Growth Potential
Increase Sales and Use Tax	2.90%	Increment of .1 ppts to 3% total rate	\$77.0	\$139.7	4.0%	No	Moderate	Modest
Increase Corporate and Individual Income Tax	4.63%	Increment of .37 ppts to 5% total rate	\$415.3	\$767.6	22.2%	No	Moderate	High
Increase Individual Income Tax Rate Only	4.63%	Increment of .37 ppts to 5% total rate	\$381.7	\$688.8	20.0%	As part of comprehensive package	Moderate	High
Increase Corporate Tax Rate Only	4.63%	Increment of .37 ppts to 5% total rate	\$33.6	\$79.0	2.3%	No	Moderate	High
Extend Sales Tax to Personal Services (no health care); retain 2.9% rate	Most services not currently taxed	2.9% on expanded base	\$456.2	\$918.4	26.6%	As part of comprehensive package	Moderate	Modest
Extend Sales Tax to Personal and Business-to-Business Services (no health care); retain 2.9% rate	Most services not currently taxed	2.9% on expanded base	\$3,557.6	\$7,610.8	220.6%	Yes	Moderate	High
Extend Sales Tax to Personal and Business-to-Business Services (no health care) at Revenue Neutral Rate	Most services not currently taxed	1.12% on expanded base	\$0.0	\$445.2	12.9%	As part of comprehensive package	Moderate	Modest
Graduated Income Tax	Flat tax of 4.63% of taxable income	Brackets: Up to \$50,000 taxable income - 4.63%; \$50,000 to \$99,999 - 5%; \$100,000 to \$199,999 - 6%; Over \$200,000 - 8%	\$1,112.3	\$3,335.3	96.7%	Yes	Moderate	High
Statewide Property Tax	Not currently used	4 mills	\$380.4	\$705.7	20.5%	As part of comprehensive package	Yes	Modest
Eliminate Sales Tax Exemption on Food for Home Consumption	Not currently taxed	2.9% on expanded base	\$278.9	\$433.1	12.6%	As part of comprehensive package	Yes	Modest
Eliminate Sales Tax Exemption on Home Energy	Not currently taxed	2.9% on expanded base	\$117.6	\$225.2	6.5%	As part of comprehensive package	Yes	Modest
Double Excise Tax on Cigarettes	\$ 0.84 per pack; only \$0.20 to General Fund	\$0.84	\$162.2	\$95.8	2.8%	No	No	Low
Double Excise Tax on Beer	\$ 0.08 per gallon	\$0.08	\$9.0	\$10.1	0.3%	No	Moderate	Low
Double Excise Tax on Spirits	\$ 0.6026 per liter	\$0.6026	\$24.7	\$34.6	1.0%	No	Yes	Modest
Double Excise Tax on Wine	First 9000 liters - \$ 0.1333 per liter. 9001 liters and above - \$ 0.0833 per liter	\$0.0833	\$5.2	\$7.0	0.2%	No	Yes	Modest