

**CPEC**  
CENTER FOR TAX POLICY

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## **Funding Municipal Government Pre and Post Colorado's TABOR Amendment**

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### **INTRODUCTION**

One of the major tenets of Colorado's TABOR Amendment is the requirement that all tax increases be subject to an affirmative vote of the people. Unlike the revenue retention limit requirements in TABOR, there is no mechanism by which a jurisdiction may relieve itself from the requirement of placing tax increases to a vote. Therefore, at least in theory, relying on tax revenue as a means of funding government is more precarious in the years following the passage of the TABOR Amendment than it was before.

Unlike taxes, fees for service may be increased by a unit of government without placing the increase to a public vote. Although fee revenue is still subject to the revenue retention limits constitutionalized in the Amendment, fees would appear to be a more flexible funding mechanism for government in the post TABOR years due to the fact that no vote is required to increase charges for service. This phenomenon has led some in Colorado to conjecture that local government has shifted its reliance for funding services from the general tax base to fees for service. This report analyzes that claim for Colorado's municipal governments.

### **DATA SELECTION AND METHODOLOGY**

The analysis presented below requires some methodological clarification, particularly as it relates to the data selected for analysis. Although all levels of government in Colorado are subject to the provisions of the TABOR Amendment, this report considers only municipal government<sup>1</sup> as the unit of analysis. Municipal governments vary in their fund structure. An activity that may be budgeted in the general fund of one city may be in a restricted, special revenue, or enterprise fund in another. As such, it is not possible to perfectly compare municipality to municipality without closely studying the fund structure

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<sup>1</sup> The period under study is the years 1985 to 2000. In those years, only Denver was a consolidated city/county government. The City and County of Broomfield was not yet formed. As such, the analysis presented in the following section first separates out the City and County of Denver for separate consideration but thereafter combines all Colorado municipalities in aggregate analysis.

of each municipality. Such a project is beyond the scope of this report. Instead this report relies on the classification performed by Colorado's Department of Local Affairs<sup>2</sup> in their compilation of financial data for Colorado's municipalities.

In order to best study the issue of increasing reliance on fees for service across all municipalities in Colorado, this report considers the proportional reliance on fees and tax base in the funding of **general activities** for each city in the state. It is possible that many fee for service programs were established and classified by DOLA as enterprises in the years following TABOR. This report does not explore the increase in enterprises, if any, as a result of the TABOR Amendment. As such, the following findings should be considered only a piece of the true municipal fiscal picture, as the numbers used for the following analysis reflect only the funding of general activities. Furthermore, this report considers only the relative reliance (generally as a percent of total revenue) on two sources of revenue to local government, general taxes and fees for service. Certainly local governments receive revenue from other sources such as grants and intergovernmental transfers. However,

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<sup>2</sup> Data for this report came from the Colorado Department of Local Affairs (DOLA). DOLA compiles financial information for the municipalities in the following way as specified on the department's webpage (<http://www.dola.state.co.us/LGS/TA/compendium.htm>). "To simplify comparisons and enhance significance, we organize the data for each county and municipality to fit a model multipurpose government. The model financial operations are divided into two categories: general activities and enterprise activities. Activities accounted for in one category are not duplicated in the other, except intragovernmental service enterprise funds."

this report limits the analysis to simply exploring whether there was a noticeable shift away from taxes and toward fees as a percentage of total local revenue.

## FINDINGS

### Overall Findings

Based upon the following analysis, there is at best weak evidence suggesting a relative shift away from taxes and toward fees as a source of funding for local government. This result holds regardless of how the data is sliced. In the sections that follow, we look at Colorado municipalities overall and then stratify and analyze them according to rate of population growth, size of municipal budget, and success with deBrucing elections. For each cut at the data, we present a time series of taxes and fees for service for the years under study, 1985-2000. Although many of these time series demonstrate a slight increase in the reliance on fees in or just after 1992, the increase is often not statistically significant and also not sustained in the years following the blip. This suggests that municipalities may have tried to shift to fee based government in the wake of TABOR, but did so without success.

### Overall Growth Rates in Selected Revenue Sources

Although not a perfect picture of relative reliance on particular revenue sources, the overall growth rate does provide a summary picture of the fiscal position of municipalities for the years around the passage of TABOR. Over the 15 year period, fees for service grew at a greater rate than either tax revenue or total revenue. However, it is important to recognize that the base off of which fees were growing was significantly smaller, probably resulting in the inflated growth rate for that revenue source.

**Table 1: Pre and Post TABOR Growth Rates of Selected Municipal Revenues**

<b>REVENUE ITEM</b>	<b>15 YEAR GROWTH RATE (1985-2000)</b>	<b>PRE TABOR GROWTH RATE (1985-1992)</b>	<b>POST TABOR GROWTH RATE (1993-2000)</b>
Charges for Service	270.15%	106.44%	78.22%
Total Tax Revenue	183.06%	52.73%	68.03%
Total Revenue	182.12%	50.15%	74.24%

As Table 1 demonstrates, charges for service were the fastest growing revenue source in the post-TABOR years. However, unlike both tax revenue and total municipal revenue, the growth rate for charges for services was greater in the pre-TABOR period (1985-1992) than it was in the post-

TABOR period (1993-2000). Again, this result may be partially attributable to the small base off of which pre-TABOR charges for service was growing. But, based upon growth rates in revenue sources alone, it is difficult to support the thesis that municipalities became increasingly reliant on fees for service in the post-TABOR years. It is further notable that tax revenue and total revenue grew at faster rates in the years post TABOR, even while charges for service saw a decrease in its rate of growth in that same time period.

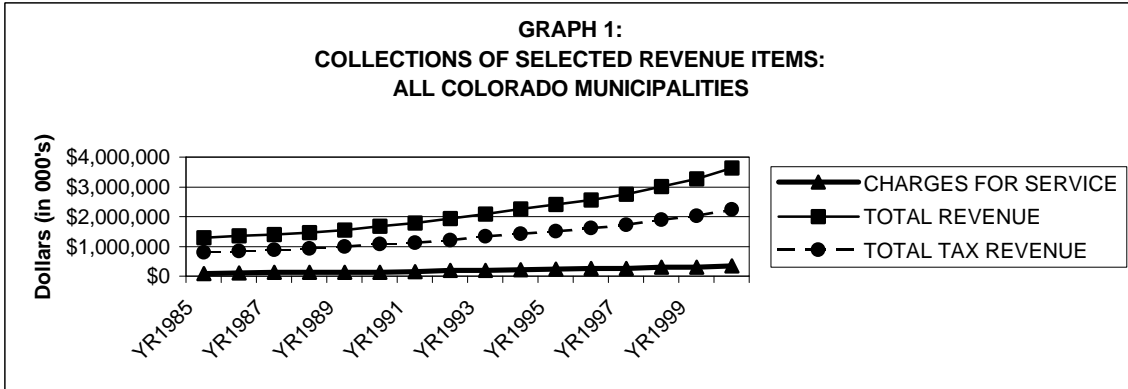
<b>YEAR</b>	<b>CHARGES FOR SERVICE</b>	<b>TOTAL REVENUE</b>	<b>TOTAL TAX REVENUE</b>
1985	\$92,649	\$1,291,394	\$792,935
1986	\$104,026	\$1,356,012	\$839,268
1987	\$119,493	\$1,400,027	\$876,636
1988	\$119,609	\$1,454,529	\$924,063
1989	\$122,867	\$1,558,633	\$997,817
1990	\$131,688	\$1,671,819	\$1,070,946
1991	\$155,901	\$1,782,617	\$1,114,667
1992	\$191,261	\$1,938,992	\$1,211,084
1993	\$192,422	\$2,090,937	\$1,335,750
1994	\$213,111	\$2,247,574	\$1,426,478
1995	\$235,478	\$2,406,505	\$1,508,357
1996	\$252,790	\$2,564,048	\$1,613,840
1997	\$266,748	\$2,750,597	\$1,715,431
1998	\$297,630	\$3,005,864	\$1,895,402
1999	\$305,724	\$3,278,120	\$2,025,740
2000	\$342,941	\$3,643,249	\$2,244,449

Graph 1 and Table 2 show the levels of the selected sources of revenue over the study period.

**Fees and Taxes as a Percentage of Total Revenue**

Another way of looking at the relative reliance on revenue sources is to examine a time series of the percentage of total municipal revenues funded by both taxes and

charges for service. If municipalities were becoming increasingly reliant on charges and less so on taxes, we would expect charges to represent a larger percentage and taxes to represent a smaller percentage in the years following TABOR. Table 3 and Graph 2 examine this relationship for the study period.



**TABLE 3: MUNICIPAL RELIANCE  
ON TAXES AND FEES:  
All Municipalities except for C/C  
Denver**

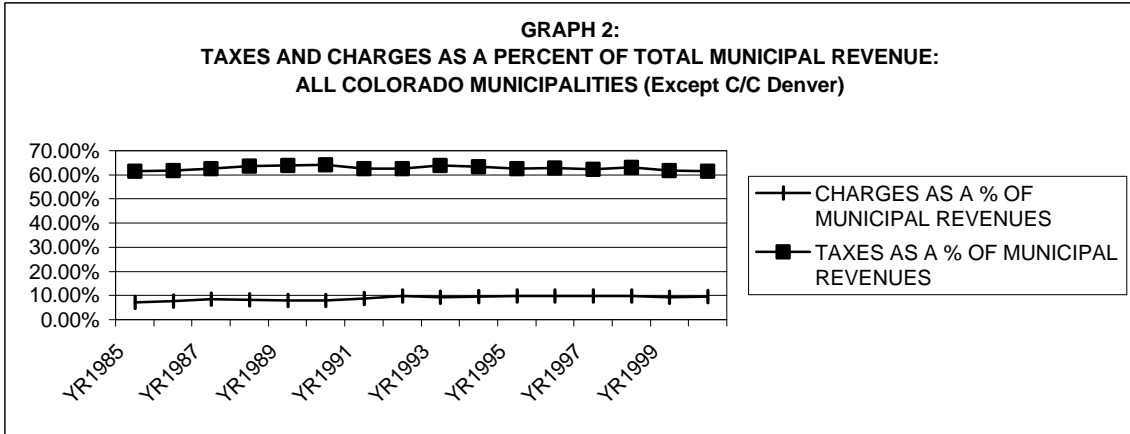
	<b>CHARGES AS A % OF MUNICIPAL YEAR REVENUES</b>	<b>TAXES AS A % OF MUNICIPAL REVENUES</b>
1985	7.17%	61.40%
1986	7.67%	61.89%
1987	8.54%	62.62%
1988	8.22%	63.53%
1989	7.88%	64.02%
1990	7.88%	64.06%
1991	8.75%	62.53%
1992	9.86%	62.46%
1993	9.20%	63.88%
1994	9.48%	63.47%
1995	9.79%	62.68%
1996	9.86%	62.94%
1997	9.70%	62.37%
1998	9.90%	63.06%
1999	9.33%	61.80%
2000	9.41%	61.61%

As a percentage of total revenue and aggregated across all Colorado municipalities, taxes were remarkably constant over the years 1985-2000 (See Table 3 and Graph 2). Taxes as a percent of total municipal revenues ranged from a high of 64.06% in 1990 to a low of 61.4% in 1985. The year with the second lowest percentage reliance on taxes was 2000, with 61.61% of total municipal revenue coming from general tax base. Municipal reliance on taxes as a percent of total revenue appears to be relatively unaffected by TABOR. Over the same period, charges for service ranged from a low of 7.17% in 1985 to a high of 9.9% reached in 1998. The next highest percentage occurred in the years 1992 and 1996 when 9.86% of total revenues were fee revenues. Interestingly, the time series on fees does demonstrate a small blip in 1992, the year of the passage of the TABOR Amendment. And, unlike taxes which were relatively constant over the study period, fees as a percent of total revenues remained at a slightly higher level after TABOR than in the pre-TABOR years. Although the difference

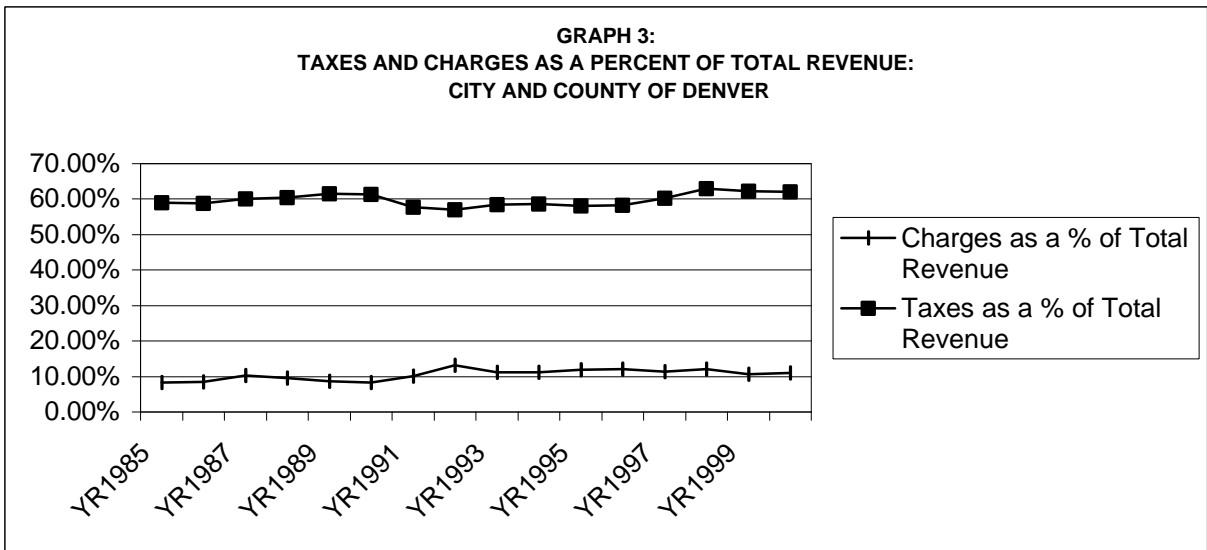
between the pre-TABOR and post-TABOR percentages for fees is within a reasonable margin of error, the trend is toward a slightly larger reliance on fees, suggesting that the TABOR Amendment may be slowly shifting municipal reliance on fee revenue.

**The City and County of Denver**

Since Denver was the only consolidated city/county government over the study period as well as the largest financial entity in the study, it is worth a quick review of the relative reliance on fees and taxes for the City and County of Denver. The purpose of separating Denver and examining it individually is to ensure that the magnitude and difference in the governmental form of Denver is not skewing the aggregate data for the state. Graph 3 presents the picture for Denver examined separately.



Although the fluctuations are slightly more pronounced for Denver than for the state overall, the trends are quite similar, particularly with regard to the jump in the trend for fee collections in the years 1992 and 1993. Since Denver's experience is not significantly different from that of the state overall, the remainder of this report will aggregate Denver in with the rest of the state's municipalities.



**Effects of Population Growth and Size of Budget**

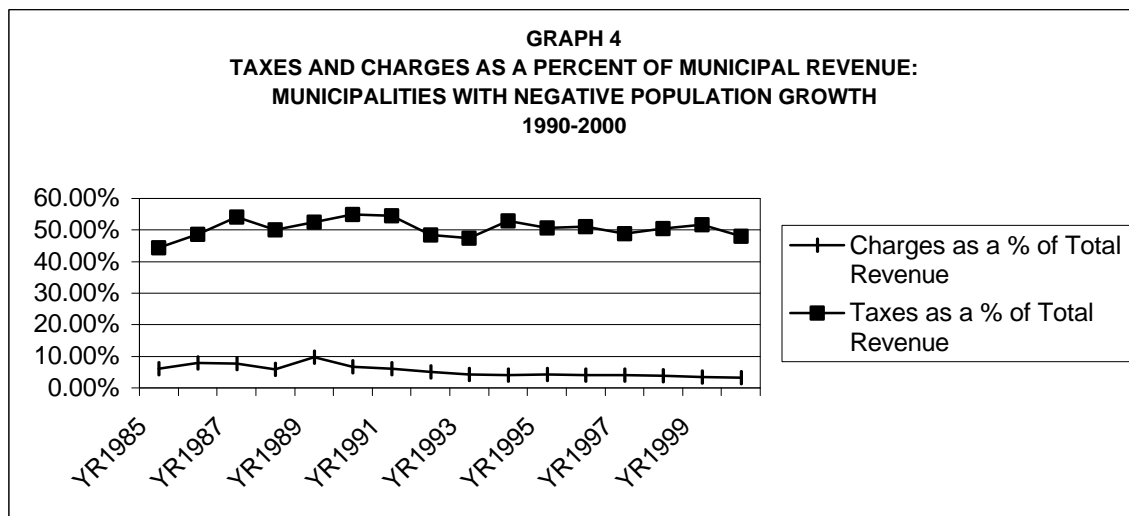
Although neither population growth nor size of budget figure into the revenue retention limits for local units of government, such characteristics may facilitate a municipality's shifting reliance from tax base to fees. Table 3 shows reliance on taxes and fees by Colorado's municipalities grouped by size of budget and rate of population growth. In general, stratifying the municipalities according to budget and population growth fails to further support the hypothesis that municipalities have become increasingly reliant on fee revenue in the years following TABOR. As with the aggregated municipalities, stratification continues to provide only weak support for the proposition concerning increasing reliance on fees.

For both low and high revenue cities, fees generally climbed consistently over the study period. However, the climb was a steady and smooth one rather than one with a discrete jump just after the passage of TABOR, suggesting that TABOR was not the cause of the increased reliance on fee revenue. Instead, the data suggests that municipalities, regardless of the level of their budgets, are slowly increasing their reliance on fees as a source of revenue. Interestingly, tax revenues as a percentage of revenues peaked in 1993 for both large and small budget cities, and have trended downward in the years since 1993.

The picture for cities stratified by population is a bit different. Again, fees increased as a percent of budget for all growing cities. As will be discussed below, cities with negative population growth between 1990 and 2000 exhibited almost the opposite experience with fees decreasing over the study period. For the cities with positive population growth, those that grew at less than the state average experienced the discrete jump in fees in 1992 that was seen in the aggregate analysis. From 1991 to 1992, these cities saw a jump in fee percentage from 8.80% to 10.18%, and the percentage

has not fallen below 9% since. Cities in the high population growth category experienced a maximum for reliance in fees in 1997, years after the passage of TABOR and have seen that percentage back off slightly in the following years. However, as with the other group of growing cities, fees have not fallen to the percentage of revenues represented in the pre-TABOR years. Again, there is clear evidence that most cities, specifically those with positive growth rates, have become increasingly reliant on fees. However, the data does not explicitly support the conjecture that TABOR has caused the shift.

Cities experiencing negative population growth display a quite different picture. In those cities, the reliance on fees has dropped significantly during the 1990s, suggesting that struggling cities are far less able to support municipal budgets with fee based programming and the associated revenue sources. Note too that these shrinking cities have tax bases far smaller than the growing cities in the state, further suggesting that these cities are supported by less traditional revenue sources such as grants and intergovernmental transfers. Graph 4 below shows the financial position of these shrinking cities.



**TABLE 3: Relative Reliance on Taxes and Fees  
Municipalities Classified by Revenue, Population Growth**

YEAR	Low Revenue Cities (Annual Rev. < \$30,000,000)		High Revenue Cities (Annual Rev. > \$30,000,000)		Low Population Growth Cities (1990-2000 Growth Rate < State Average)		High Population Growth Cities (1990-2000 Growth Rate > State Average)		Negative Population Growth Cities (Cities Losing Population Between 1990 and 2000)	
	Charges as a % of Total Revenue	Taxes as a % of Total Revenue	Charges as a % of Total Revenue	Taxes as a % of Total Revenue	Charges as a % of Total Revenue	Taxes as a % of Total Revenue	Charges as a % of Total Revenue	Taxes as a % of Total Revenue	Charges as a % of Total Revenue	Taxes as a % of Total Revenue
1985	6.25%	60.56%	6.69%	63.52%	7.11%	61.88%	7.51%	59.99%	6.14%	44.38%
1986	6.61%	61.99%	7.35%	64.17%	7.71%	62.23%	7.47%	60.89%	7.89%	48.58%
1987	6.83%	63.93%	7.83%	64.00%	8.66%	63.08%	8.03%	60.90%	7.77%	54.07%
1988	7.00%	64.34%	7.65%	65.56%	8.34%	63.85%	7.85%	62.70%	5.87%	50.08%
1989	7.08%	64.74%	7.61%	65.62%	7.86%	64.19%	7.90%	63.69%	9.77%	52.47%
1990	7.48%	64.29%	7.70%	66.07%	7.86%	64.00%	7.99%	64.59%	6.75%	54.88%
1991	7.94%	63.17%	7.98%	65.89%	8.80%	62.41%	8.63%	63.27%	6.06%	54.55%
1992	7.97%	64.79%	8.05%	65.84%	10.18%	61.81%	8.89%	65.52%	5.11%	48.36%
1993	7.68%	66.32%	8.25%	67.30%	9.37%	63.31%	8.82%	66.71%	4.16%	47.47%
1994	8.13%	65.26%	8.71%	66.42%	9.60%	62.85%	9.32%	66.00%	4.05%	53.00%
1995	8.35%	63.24%	8.77%	65.77%	9.84%	62.20%	9.84%	64.76%	4.33%	50.62%
1996	8.54%	63.20%	8.83%	66.10%	10.04%	62.65%	9.55%	64.30%	4.07%	51.05%
1997	8.68%	61.92%	8.93%	63.91%	9.68%	62.66%	10.02%	62.01%	4.13%	48.93%
1998	8.69%	62.03%	9.01%	63.50%	10.10%	64.24%	9.66%	60.36%	3.92%	50.55%
1999	8.97%	61.66%	8.66%	61.55%	9.44%	63.56%	9.30%	57.73%	3.54%	51.75%
2000	9.00%	61.05%	8.60%	61.54%	9.46%	62.75%	9.59%	59.17%	3.16%	48.01%
<b>Average</b>	7.83%	63.28%	8.16%	64.80%	9.00%	62.98%	8.77%	62.66%	5.42%	50.55%

Note: Emphasis on low and high levels for each category (Lows are shaded, Highs are outlined).

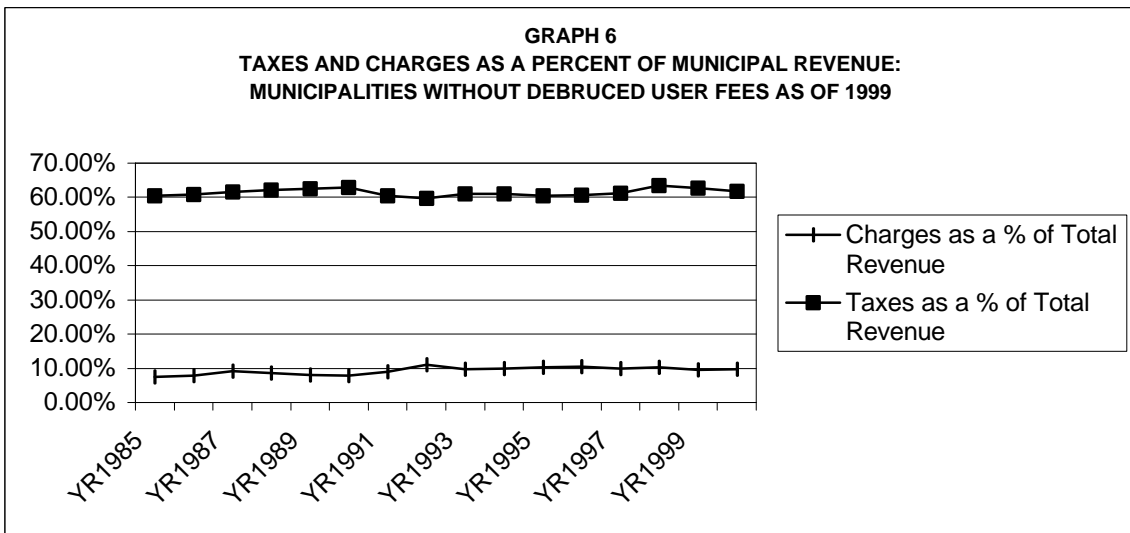
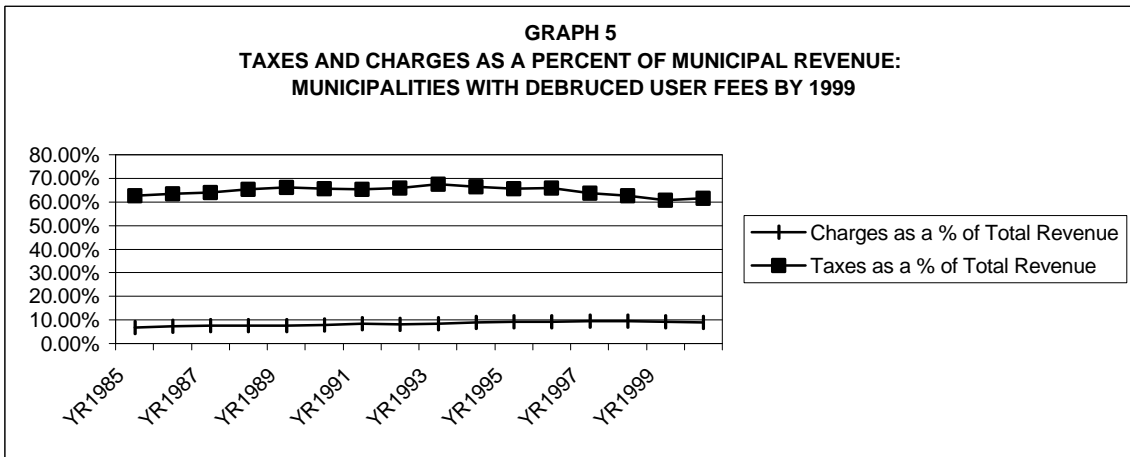
### Impact of Revenue and Spending Change (deBrucing) Elections on Fee Reliance

The previous sections considered whether certain demographics, particularly rate of population growth and size of total municipal revenues, impact a city's reliance on fees in the years since TABOR. As with the aggregate data, the findings weakly supported a small increase in fee reliance but failed to demonstrate a strong correlation with the passage of TABOR. Yet, neither of the demographics impacts a municipality's ability to raise and retain additional revenues under the revenue retention provisions of TABOR. In this section, cities that have passed revenue and spending change elections (or deBruced their revenues) are compared with those that have not to explore whether the cities that have exempted themselves from the revenue retention limits are more reliant on fees as a source of municipal revenue.

Since 1993, municipalities in Colorado have attempted 417 local elections to exact revenue and spending changes. 375, or 90% of them have been successful.<sup>3</sup> Of those

<sup>3</sup> Source of this information is Colorado Municipal League's 2001 edition of their annual publication *Financial Condition of Colorado Municipalities*. These elections are those that ask for increased spending authority **without** associated tax increases.

successful elections, not all provide the municipality with the authority to retain excess revenues from user fees and some of the successful elections occurred in 1999 or 2000, late enough in the study period that for this study's purposes that particular city was grouped with the non-deBruced cities. In the graphs that follow, deBruced cities are those that passed a measure deBrucing user fees by 1998. For this report, 201 of the state's 270 towns and cities fell into this deBruced category. Surprisingly, although exempting oneself from the revenue retention limits theoretically provides a city with more flexibility to increase and retain user fee revenue, there is virtually no difference between the two groups of cities in their reliance on fee revenues. Instead, in the years just after TABOR, deBruced cities demonstrated a heavier reliance on tax revenues, presumably as a result of the successful revenue change election. Graphs 5 and 6 show the time series for these cities.



## CONCLUSION

Colorado's voters passed TABOR in November of 1992. Since that time, all units of government have been subject to the requirement that tax increases be approved by a majority of the electorate. Fees, however, while still subject to TABOR's revenue retention limits in cities that have not passed revenue and spending changes, may be increased without a vote. Naturally, there has been speculation that this combination of legal requirements would lead to a shift in reliance from taxes to fees for the purpose of funding local government. The conclusions from this report are inconclusive on that claim.

The analysis in this report demonstrates a slight increase in the use of fees post-TABOR. Overall, fees jumped from an average of 8.04% of municipal revenues before TABOR to an average of 9.61% of municipal revenues after TABOR. Furthermore, the graph of the time series of municipal reliance on fees shows a slight blip in the trendline for fees in the period just after 1992. However, the increases were small enough to argue that they were within the statistical margin of error. While demonstrating increases, this report fails to strongly support the hypothesis that fees are replacing taxes as a principle source of municipal revenue.

Cities that have exempted themselves from the revenue retention limits of the TABOR Amendment demonstrate an almost identical trend line in the percent reliance on fees with those who have not. Although percent of total revenues is not a perfect measure as it is affected by changes in all revenue sources, fees consistently represent no more than 11% of total revenues regardless of how municipalities are grouped for analysis. Regardless of a municipality's experience with deBrucing initiatives,

population growth, or size of budget, reliance on fees remained within a reasonable margin of error.

The small increase in fee revenue in the years since 1992 is likely a reflection of a combination of factors, of which TABOR is only one. Municipalities may also be reacting to other fiscal stresses such as the increasing distaste for taxes. Furthermore, many municipalities took a critical view of their programs and services during the 1990s and adopted positions that services whose benefits accrued to individuals and not to the community as a whole should be supported by fees and not taxes. Any of these pressures would result in the increase in fee reliance demonstrated by the data. Finally, this increase is naturally tempered by the forces of the market. There is a limit to the rate at which local government can increase fees, as fees are generally subject to public hearings and for most citizens, participating in the fee for service program is optional. All of these factors taken together contribute to the complicated mosaic of municipal financing.