

## Colorado Legislative Council Staff

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## **MEMORANDUM**

September 29, 2009

**TO:** Interested Persons

**FROM:** Jason Schrock, Economist, 303-866-4720

**SUBJECT:** Governmental Expenditures as a Proportion of the Economy

This memorandum responds to your request for information on Colorado's government expenditures as a proportion of its economy over time and how Colorado compares with other states. Throughout the memorandum, the measure of governmental expenditures as a percent of the state economy is called the "index."

To provide this information, staff used data on governmental expenditures from the U.S. Census Bureau, *Annual Survey of State and Local Government Finances and Census of Governments*. The size of state economies was measured using state gross domestic product data from the U.S. Bureau of Economic Analysis.

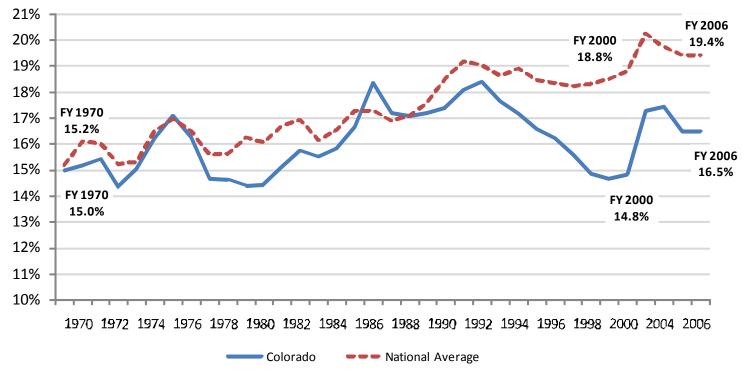
Figure 1 shows Colorado's index for combined state and local governmental expenditures from FY 1969-70 through FY 2005-06 compared to the national average.<sup>2</sup> Figure 2 shows Colorado's index for state government only expenditures from FY 1969-70 through FY 2006-07 compared to the national average.

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<sup>&</sup>lt;sup>1</sup> The Census Bureau data on governmental expenditures is currently only available through FY 2006-07 for state government expenditures and through FY 2005-06 for state and local combined government expenditures.

<sup>&</sup>lt;sup>2</sup> The Census Bureau does not have data on local government expenditures for FY 2000-01 and FY 2002-03, thus these years are excluded from the analysis.

Figure 1. State and Local Governmental Expenditures as a % of the State Economy, FY 1970 to FY 2006



Source: U.S. Census Bureau and U.S. Bureau of Economic Analysis

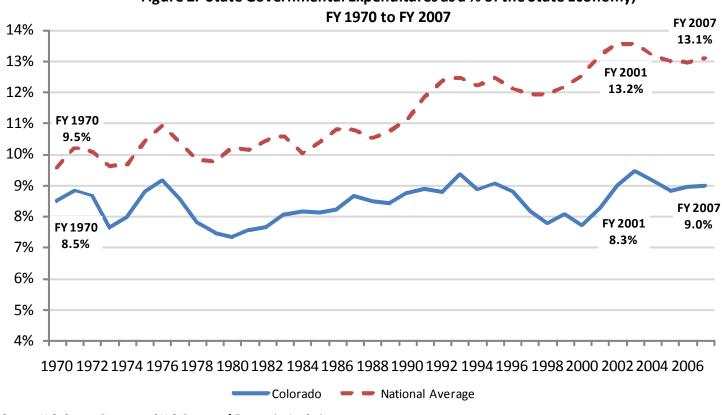


Figure 2. State Governmental Expenditures as a % of the State Economy,

Source: U.S. Census Bureau and U.S. Bureau of Economic Analysis

Staff found that the index for state governmental expenditures and state and local combined governmental expenditures in Colorado has remained roughly the same since FY 1969-1970. Though, as shown in Figure 1, Colorado's index for state and local combined governmental expenditures grew slightly. Colorado's state and local combined governmental expenditures represented 15.0 percent of the state economy in FY 1969-70 and 16.5 percent of the state economy in FY 2005-06. Colorado's state governmental expenditures represented about 8.5 percent of the state economy in FY 1969-70 and 9.0 percent of the economy in FY 2006-07. In the Census Bureau data, total governmental expenditures includes general fund, cash funds, federal funds, and intergovernmental expenditures.

While Colorado's index for combined state and local governmental expenditures was slightly higher in FY 2005-06 compared to FY 1969-70, governmental expenditures grew at a higher rate in most other states. The average index of all states' **state and local** governmental expenditures grew from 15.2 percent in FY 1969-70 to 19.4 percent in FY 2005-06. Further, the average index of all states' **state** governmental expenditures was 9.5 percent in FY 1969-70 and 13.1 percent in FY 2006-07.

As can be seen in Figure 1, Colorado's index for combined state and local governmental expenditures trended upward at about the same rate as the national average until the early to mid 1990s, but then it began to fall. Colorado's index was 0.2 percent below the national average in FY 1969-70, but was 2.9 percent below the national average in FY 2005-06. In FY 1999-00, Colorado's index for state and local governmental expenditures was 4 percent lower than the national average.

As can be seen in Figure 2, like the index for combined state and local governmental expenditures, Colorado's index for state government only expenditures is lower than the national average index. However, the difference between Colorado's index and the national average is wider than when looking at combined state and local governmental expenditures. This is likely due to Colorado's tradition of having a strong, decentralized local government system with relatively higher local taxes and relatively lower state taxes.

The gap between Colorado's index for state government only expenditures and the national average grew wider starting in the early 1990s. Colorado's index was 1.0 percent below the national average in FY 1969-70, but was 4.1 percent below the national average in FY 2006-07. In FY 2000-01, Colorado's index was 4.9 percent lower than the national average.

Table 1 provides information on selected states', including Colorado's, index for **state** and **state and local** governmental expenditures in FY 1989-90 and in the latest year in which government expenditure data is available. It also shows the ranking of each state's index compared to all 50 states. In FY 2006-07, Colorado had the 48th-lowest index for its state government expenditures, and in FY 2005-06, Colorado had the 44th-lowest index for state and local combined governmental expenditures.

Table 1. Comparison of Selected States' Governmental Expenditures as a Percent of the State Economy

Total State Govt Expenditures as % of State Economy					Total State and Local Govt Expenditures as % of State Economy				
State	FY 2007	Rank (highest % to lowest)	FY 1990	Rank (highest % to lowest)	State	FY 2006	Rank (highest % to lowest)	FY 1990	Rank (highest % to lowest)
Colorado	9.0%	48	8.8%	42	Colorado	16.5%	44	17.2%	27
Arizona	11.5%	34	11.9%	15	Arizona	18.1%	36	22.3%	2
New Mexico	19.8%	4	15.5%	2	New Mexico	22.9%	6	20.4%	7
Washington	12.0%	30	11.7%	18	Washington	19.6%	22	19.1%	16
Illinois	9.6%	46	8.0%	49	Illinois	17.2%	40	14.2%	48
Virginia	9.6%	47	8.6%	44	Virginia	15.2%	48	14.4%	46
Mississippi	21.3%	1	12.5%	10	Mississippi	26.4%	1	19.1%	14
Texas	7.9%	50	6.8%	50	Delaware	14.0%	50	14.0%	49
National Average	13.1%	NA	11.1%	NA	National Average	19.4%	NA	17.6%	NA

Source: Legislative Council Staff Calculations Based on Data from the U.S. Census Bureau and U.S. Bureau of Economic Analysis

Since the Census Bureau only has data on governmental expenditures that are not broken out by funding source (e.g., general fund, cash funds, federal funds, etc), staff also conducted an analysis of Colorado General Fund appropriations as a percentage of the state economy over time. It is possible that although total expenditures stayed at about the same percentage of Colorado's economy over time, General Fund expenditures as a percentage of the state economy changed more substantially. However, as Figure 3 below indicates, General Fund appropriations were about the same percentage of the state economy in FY 2007-08 (2.9 percent) as they were in FY 1982-83 (3.0 percent), though the percentage increased slightly through FY 1995-96 and then began to decline slightly.

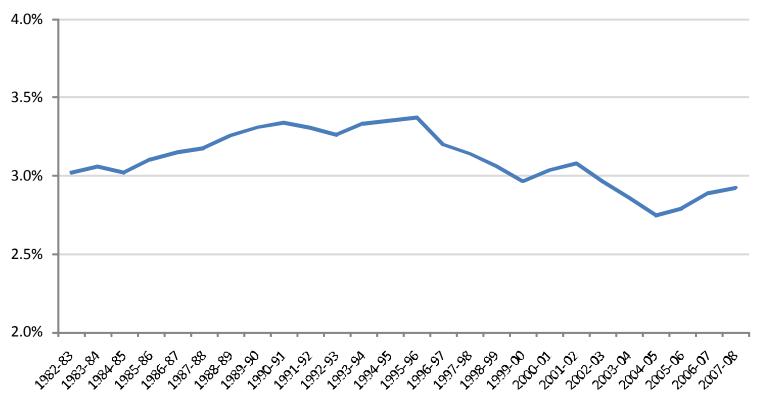


Figure 3. Colorado GF Appropriations as % of State Economy, FY 1983 to FY 2008

Source: Joint Budget Committee and U.S. Bureau of Economic Analysis