

**AGENDA**  
**for the**  
**COLORADO COMMISSION ON TAXATION**

**State Capitol Building, House Committee Room 0112**

**Wednesday, August 23, 2000**  
**9:00 a.m. - 12:00 p.m.**

**Summary follows agenda**

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**I. 9:00 a.m. -- Call to Order by Senator Mike Feeley, Prime Sponsor, SB 00-103**

Opening Remarks  
Senator Mike Feeley  
Review of the Commission's Charge in SB 00 -103

**II. Election of Commission Chair and Vice-Chair**

**III. Review of the Scope of the Study**

- A. History of Tax Studies in Colorado  
The McNichols Tax Study  
- *Charlie Brown, Legislative Council Staff*
- B. Tax Studies Commissioned in Other States  
- *Ron Kirk, Legislative Council Staff*
- C. Report of the Ad Hoc Committee on Property Taxation  
- *Paul Schauer, Chair of the Ad Hoc Committee*

**IV. Meeting Schedules and Agendas**

- A. Meeting topics for the next two meetings  
- *Charlie Brown, Legislative Council Staff*
- B. Meeting dates and times for September through December

**V. Discussion of Committee Organization and Management**

Possible Subcommittees:  
- Fund raising  
- Mission, scope, and outcome statements  
- Regional Hearings

**VI. Administrative Issues**

- A. Meeting Protocol and rules - *Commission Chair*
- B. Staff Support
- C. Expense reimbursements for meeting attendance

**VII. 12:00 p.m. -- Adjourn**

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STAFF SUMMARY OF MEETING

COLORADO COMMISSION ON TAXATION

House Committee Room 0112  
State Capitol Building

Wednesday, August 23, 2000

Name	Present	Absent
Joseph H. Chavez	X	
Ray C. Christensen	X	
Senator Michael F. Feeley	X	
Larry Kallenberger	X	
Dennis C. King	X	
Bob P. LeGare	X	
Nancy McCallin	X	
Norman A. Palermo	X	
Barry W. Poulson	X	
Lieutenant Governor Joe Rogers	X	
Representative Todd Saliman	X	
Representative Joseph P. Stengel	X	
Senator Ron Teck	X	
Bill Schroeder, Vice Chairman	X	
Paul D. Schauer, Chairman	X	

**9:20 AM - Opening Remarks and Call to Order - Senator Mike Feeley**

Senator Feeley, prime sponsor of the legislation that created the Colorado Commission on Taxation (Senate Bill 00-103), welcomed commission members and the audience to the first meeting of the commission and stated he is excited to see the commission's process begin. All commission members were present. Staff attending from Legislative Council included Mr. Charlie Brown, Mr. Lon Engelking, Mr. Harry Zeid, and Mr. Ron Kirk.

Senator Feeley praised the efforts of the legislators who made the legislation possible and stated that the commission has an opportunity to take the first organized look at Colorado's tax structure since the 1957 McNichols Tax Study. Senator Feeley stated he hopes the commission aspires to the comprehensive and qualitative study that was performed over 40 years ago.

Senator Feeley noted there has been a significant change in our world and the state since the 1957 McNichols study. Colorado's tax structure has sustained a significant change and has gone through years of fiscal upheaval. As an example, in 1957, Colorado did not have the proliferation of special districts as it now has, and the state's economy has become more complex. The passage of Senate Bill 00-103 indicates that the legislature believes that it is time to re-evaluate the state's tax system to determine whether or not the state's tax and fiscal policy still embodies the principles and values of Coloradans.

Ultimately, he stated, the work of the commission is not to function as the legislature or a tax-cutting body for this is the job of elected officials. The commission's role is to use the expertise of the commission members to determine whether or not Colorado's tax structure will serve Colorado well into the 21<sup>st</sup> century. Senator Feeley concluded his opening remarks by stating how everyone on the commission will have to recognize the level of commitment necessary to produce a high-quality final-work product. At this point, Senator Feeley asked for commission member comments.

### **9:20 AM - Commission Member Comments**

Mr. Paul Schauer commented and agreed that the commission's task is a historic opportunity to review the state's tax structure. The commission has the opportunity to produce a document for the legislature that will not only examine Colorado's economy and tax structure, but also determines what the most appropriate recommendations are to guide Colorado's state and local fiscal policy well into the 21<sup>st</sup> century.

Mr. Chavez stated that he hopes the commission values and recognizes the input from commission members who possess valuable private sector leadership experience. The commission must also recognize and value input from the business community and all of the participants who become involved in the commission's process or may be impacted by commission recommendations.

Senator Teck commended Senator Feeley on his efforts to sponsor and have Senate Bill 00-103 adopted by the legislature. It was important that the charge of the measure be simple and broad-based to allow the commission flexibility to look at all aspects of state and local taxes.

Mr. Bill Schroeder mentioned the importance of the commission's work and his high level of excitement and enthusiasm to work together will all members of the commission to produce a high quality final work product.

Mr. Larry Kallenberger stated public comment and involvement is important and valuable to the final work product. It is important for the commission to let the public know the importance of their opinions. The commission might also consider utilizing high-tech Colorado companies to establish Kiosks in shopping centers as a vehicle to obtain and collect public reaction to the commission's work. The process of obtaining public opinion must begin quickly.

Lieutenant Governor Joe Rogers stated it is important for the commission to study and understand state tax policy because tax issues effect the quality of life for all Colorado persons. The commission's work will benefit Colorado because it allows recommendations of the most efficient and fair public policy changes to allow Colorado continuing economic prosperity.

At this time, Senator Feeley acknowledged the exceptional efforts of Mr. Charlie Brown, Executive Director of the Legislative Council Staff, for his work on the independent sabbatical that has provided the necessary preparation work to allow the commission to begin its work.

### **9:35 AM - Election of the Chair and Vice-Chair**

Senator Feeley stated the first order of business would be the election of the chair and vice-chair. He stated the legislation is silent on the selection process and emphasized the magnitude of the work that the chair and commission would be facing.

The commission members engaged in a brief discussion on the criteria for the selection of the chair and vice-chair. Senator Feeley asked the commission members for nominations. Mr. Chavez nominated Mr. Paul Schauer for the chairman's position. He stated that Mr. Schauer worked on the ad hoc committee that looked at the need for a tax study, is an ideal private sector representative, and also has legislative experience. No other nominations for chairman were made by the commission. The commission took a voice vote for the chairman's position and without objection, approved Mr. Paul Schauer as the chairman.

Senator Feeley asked for a nomination for the vice-chair's position. Mr. Ray Christensen nominated Mr. Bill Schroeder and Representative Saliman nominated Senator Feeley for the vice-chair's position. Mr. Schroeder expressed that it would be an honor to serve as the vice-chair of the commission. Senator Feeley commented on the importance of the commission to work together as a bi-partisan effort and called first for a vote by members for Mr. Schroeder. Eleven members raised their hands in support for Mr. Schroeder as the vice chair of the Colorado Commission on Taxation. At this time, Senator Feeley turned the chair over to Mr. Schauer, chairman.

### **9:51 AM - Remarks by the Chairman, Mr. Paul Schauer**

Mr. Schauer thanked Senator Feeley for his effort to promote the legislation that created the commission and expressed the level of commitment needed by members to accomplish the commission's work. He noted it is important for members to set aside political differences and recognize the need to work together with minimal internal conflict. The chairman then asked the commission members provide a brief introductory presentation on each members background, qualifications, and interest in serving on the commission.

### **10:03 AM - Presentation on the History of Tax Studies in Colorado**

Mr. Brown, Executive Director, Legislative Council Staff, was present to provide a history of tax studies in Colorado.

Mr. Brown noted the first study of the Colorado tax system was produced under the auspices of the Denver Chamber of Commerce and commissioned in May of 1930. At this time, there was concern about the impact of taxes on Colorado citizens. The 220 page study took four months to complete and was accomplished by a professor at the University of Kansas. The research was completed quickly because the project received significant assistance from 100 representatives from various chambers of commerce and civic associations throughout the state.

The tax system in 1930 was very simple. During this time, the state levied a property tax to fund most state government services. The study's scope was to first look at the reasons taxes were raised by looking at the spending side. The study identified the hallmarks of an ideal tax system in terms of simplicity, administrative ease, and the ability of citizens to understand the tax structure. At this time, the state was contemplating a local sales tax option and a state personal income tax. A section of the study also looked at the first tax limitation on property taxes as well as material on tax and expenditures patterns. Overall, the study was very comprehensive in nature.

Mr. Brown discussed a study performed in 1938 by the Bureau of Business and Social Research, at the University of Denver. This study titled, *Financing Government in Colorado*, was guided by Dr. Eugene T. Halaas. Dr. Halaas was one of the primary people responsible for producing the 1959 McNichols tax study 21 years later which had the same title. The 1938 study was small in scope and generalized state and local government tax collections and did not provide an in-depth analysis of each tax imposed by the state.

Mr. Brown noted the next group of studies were a series of studies commissioned by the University of Colorado in 1946 and 1947. These studies were in-depth studies and looked at the historical development of individual taxes, such as the newly developed individual income tax established in 1937. The studies did not evaluate state expenditures, budget limits, or government efficiency, nor did the studies examine the state economy. All of these efforts were preparatory to the 1959 McNichols study.

Mr. Brown stated the 1959 McNichols study resulted from a promise made by Governor McNichols during the 1956

election campaign. At this time, the state was in the middle of an economic boom and experienced a migration of service people who increased demand for government services. The study was in response to the concern about how government services would be funded. Mr. Brown discussed the primary persons who directed the study and the scope of the study.

The scope of the study included: total tax revenues and expenditures; changes in expenditures caused by growth; the changing economy; the revenue and expenditure history of state and local governments; the impact of taxation on businesses and individuals; the fairness of taxes, and the responsibilities of state and local governments to maintain revenue sources. The research group was commissioned to make recommendations to the Governor regarding Colorado's future tax system.

Mr. Brown stated that the objectives of the study followed the charge of the commission and briefly discussed how the commission approached its task. The overall thought process of the commission was to look at the relationship between the costs of government services and the revenue sources needed to fund those services. The commission believed that governmental budget planning must be premised on economic growth and population changes. The main focus for the commission was to evaluate the present tax structure and determine the future demands that would be imposed on the system. Funding for this study equaled about \$2 million in current dollars.

Mr. Brown concluded his presentation discussing some of the commission's recommendations and the time frame for which these recommendations were implemented. Some of the recommendations occurred immediately after the study's completion and others occurred 20 years after the study was conducted. Some examples include the repeal of the state property tax in 1966 and the food sales tax exemption from the sales tax base in 1979. As a result of these recommendations, the state individual income tax was also simplified by reducing the number of taxable income brackets. This recommendation was intended to move Colorado towards a more uniform tax system.

Mr. Brown concluded noting some of the issues the commission suggested needed follow up research after the final report was issued in 1959. The 1963 Governor Love Study resulted from the recommendations advanced by the 1959 McNichols study. This study resulted in a three-year effort that produced legislation that made significant changes to the structure of local governments.

### **9:55 AM - Commission Member Comments**

The commission members engaged in a brief discussion on research regarding principles of a high-quality state tax system. The discussion shifted to the issue of why Colorado has not engaged in a comprehensive study since the 1959 McNichols study. Members of the commission also talked about the time constraints and limited staff support contained in the enabling legislation (Senate Bill 00-103).

Commission members discussed the lack of funding in the current study and whether or not private sector support could be obtained. The discussion concluded on the challenges the commission could encounter given the funding constraints.

### **10:03 AM - Presentation on Tax Studies Commissioned in Other States**

Mr. Ron Kirk, Legislative Council Staff, was present to discuss research on tax studies commissioned in Colorado and in other states and distributed a table on the findings. The first study in the table provides information on the 1959 McNichols study which serves as the baseline study. The study was funded with two General Fund appropriations in 1957 and 1958 that equates to approximately \$2 million in current dollars. The comparison of 12 studies conducted by other states from 1988 through the present indicated that for studies lasting 24 months or less, the average size of the commission was 17 members and had average initial funding of \$450,000. For tax studies with a duration of 25 months or more, the average size of the commission was 21 members and had average initial funding of \$1 million.

Staff found oversight of the studies mainly fell into two groups: (1) the commissions would act as the body making recommendations to a state legislature; and (2) either independent consultant(s) or a research group made up of

universities or other professionals would be responsible for management or coordination of the research effort. The research component would generally be guided by a director hired or appointed by the independent commission.

Findings indicate most studies had varied levels of staff support, much of which was in-kind from the following sources: state and local agencies; multiple universities; public and private consultants; businesses; and an array of professional staff that was either statewide, regional, or in many cases nationwide. Staff estimated that the value of the additional in-kind staff support drove the total costs of these comprehensive studies (24-month or less) to nearly \$2 million.

#### **10:48 AM - Commission Member Comments**

Commission members briefly discussed the amount of funding required to conduct a comprehensive study. Members inquired about funding sources for most of the studies researched by staff. Mr. Kirk responded that many of the studies were initially funded with a minimal amount of state General Fund moneys. However, some studies received small grants and, in some cases, were absorbed within state agency budgets. Mr. Kirk noted that many of the studies funded themselves by generating a significant amount of in-kind staff support from various statewide, regional, and other sources of professional expertise.

#### **10:55 AM - Presentation on the Ad Hoc Committee on Property Taxation**

Mr. Schauer, chairman, briefly explained the process that resulted from Senate and House leadership asking a group of individuals to discuss state tax policy and look at the need for a study. The ad hoc group's findings and recommendations highlighted many of the changes in the Colorado economy that resulted from population growth and a changing economy. Many of the issues focused on Colorado's future fiscal challenges. Mr. Schauer concluded by pointing out that many of the recommendations in the ad hoc committee's final report supported the need for the state to engage in a comprehensive tax study.

#### **11:05 AM - Presentation on Meeting Schedules and Agendas**

Mr. Brown discussed the issue of commission staff support found in SB 00-103's enabling legislation and the recent effort of state agency staffs to develop an agenda for the upcoming meetings in terms of informational briefings. As these meetings unfold, there will be housekeeping items, some business items, and a review of where state and local governments get their money.

Mr. Brown stated that he had met with a number of state agency directors who are required to provide staff support to the commission and found they were very willing to support the commission in any way possible. Mr. Brown mentioned that it is important to note that many of these individuals (economists and agency fiscal staff) may only be available for a limited time prior to the beginning of the upcoming session because of their involvement in the legislative process.

Mr. Brown provided the commission with a number of dates for upcoming commission meetings and briefly discussed the task of creating subcommittees to divide up the commission's workload.

Commission members briefly discussed agenda items for future meetings. The discussion shifted to commission funding and the possibility of money being appropriated from the General Assembly. Senator Feeley suggested the funding issue be discussed during the next meeting based on a set of goals established by the subcommittee.

The commission asked Mr. Brown to put together a draft study budget for the next meeting. The commission set Monday, September 18, 2000 for its second meeting.

### **11:35 AM - Discussion of Committee Organization and Management**

Mr. Brown discussed how several members of the commission (as subcommittees) could work separately on issues such as raising funds, developing a mission statement, and creating a plan for the commission to hold regional hearings.

Mr. Schauer recommended that Mr. Schroeder, as vice chair of the commission, chair a subcommittee for the mission, scope, and outcome statements and draft a document for the next meeting. Mr. Schauer then recommended that subcommittees be created for fund raising and regional hearings and asked commission members sign up for each of the subcommittees. Mr. Schroeder asked staff to provide the subcommittee on mission statements with a comparison of mission and outcome statements from other state tax studies.

The commission engaged in a discussion on the process that the commission would engage in to deliver a set of final recommendations to the legislature.

Senator Feeley agreed to chair the subcommittee on fund raising and Senator Teck agreed to chair the regional hearings subcommittee. The commission concluded by discussing the issue of reimbursement of commission members.

### **12:10 AM - Concluding Remarks**

Mr. Brown stated it would be important for the commission to hire its own staff and research director as soon as funding allows and mentioned his draft budget includes moneys for one senior research analyst and one clerical staff.

Mr. Brown concluded by discussing several other administrative issues and mentioned how an interactive web page with a front end e-mail system could benefit the commission by allowing members to gain input from the public. Mr. Brown also mentioned commission members and interested persons would be able to get meeting summaries and agendas for upcoming meetings as soon as they become available.

### **12:14 P.M.**

The meeting adjourned.