HB05-1046 Bill Analysis

For the Health District of Northern Larimer County Board of Directors
April 7, 2005

Bill Title: Concerning the requirement that legislative council staff use a dynamic model to analyze the economic impact of a bill that makes a tax policy change, and making an appropriation in connection therewith

Sponsors: House: McCluskey; Senate: Lamborn

Committees: House Finance and Appropriations

History: 3/24 Senate Finance Committee Referred Amended to Appropriations

Date of Analysis: April 7, 2005

Prepared by: Katherine Young

Background

There are two different approaches to estimating the impact of tax law changes on revenue. *Static revenue estimates* calculate the direct impact that a tax law will have on revenue with the basic assumption that the law will have virtually no impact on economic activity in various sectors of the economy and no effect on taxpayer behavior. *Dynamic revenue estimates* assess not only the direct impact a tax law change will have on revenues, but also the dynamic effect of the tax change on the overall economy and the behavior of taxpayers. For example, the report of the Interim Committee on Economic Development uses the example of gasoline taxes to illustrate the difference between static and dynamic modeling: the former would take into account only the increased revenues from the tax increase or reduced gasoline consumption, while the latter would also include the impact of the gasoline tax increase on overall production, employment, income, personal savings, and investment.[1] Similarly, a dynamic analysis of a cigarette tax increase would include: impacts on cigarette prices and consumption over time; impacts on cigarette industry employment and wages over time; impacts on markets for substitute products and services over time; impacts on markets for complimentary products or services over time; and, impacts of increasing government spending for services paid for by the cigarette tax.[2]

Importantly, dynamic analyses and static analyses work together; that is, detailed static estimates are needed before the dynamic impact of a tax policy change can be sufficiently measured. As well, dynamic effects are often not realized for at least 5 years, necessitating the need for short-term static analyses during the interim. In a similar vein, sizeable quantities of economic data are required to identify the relationships and responses among and between sectors of the economy as economic activity changes in response to the tax change.[3]

Overview

HB05-1046, as amended, authorizes the Director of Research of the Legislative Council to create a pilot program for the purpose of creating or acquiring a dynamic model to analyze the economic impact of up to ten bills per year that include a tax policy change. Dynamic analysis would be in addition to required fiscal notes. The dynamic model used would consider the secondary or indirect economic effects of the bills to be analyzed, including an estimation of likely behavioral responses of taxpayers, businesses and other persons to the proposed tax policy change. The pilot program would begin during the 2006 regular session of the Colorado General Assembly.

Why is this issue important to the Health District?

The Health District has continued to study and take positions on tax policy change – for example, Business Personal Property Tax and TABOR – due to the indirect implications these changes have on the programs and services provided within the District. Although tax policy changes may, on the surface, appear minimally related to the daily operations of the District, tax policy changes often indirectly impact health care services. Currently, Health District staff can only

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[1] Interim Committee on Economic Development – Business Personal Property Tax, Report to the Colorado General Assembly, Research Publication No. 532 (November 2004)

[2] Colorado Legislative Council Staff, "Memorandum on Dynamic Modeling in Other States" for the Interim Committee on Economic Development – Business Personal Property Tax (August 19, 2004)

[3] Mitchell Bean et al., "Dynamic Revenue Estimating-Will it Work for Michigan" Joint Report of the House Fiscal Agency, Senate Fiscal Agency and State Department of Treasury (March 1997)

speculate on the impact of proposed tax policy changes. The information provided in dynamic analyses would provide staff with more information from which to assess the impact of proposed tax changes on the operations of the District.

SUMMATION OF ARGUMENTS: HB05-1046	
ARGUMENTS FOR	ARGUMENTS AGAINST
► Dynamic modeling provides a more complete economic and fiscal estimate than static analysis. ► Likewise, dynamic modeling provides information about policy effects beyond the budget allowing policymakers more information from which to derive policy decisions. ► HB05-1046 recognizes the time-constraints and level of analyses (small versus large tax law changes) problems associated with dynamic modeling by proposing a pilot program in which the LC Director of Research chooses up to 10 bills for which to produce dynamic analyses. This allows time and resources to be dedicated to only those bills that the LC believes will have significant impact upon Colorado's economy.	►Developing and maintaining a dynamic model requires significant data collection; in some cases, data can be unreliable or unavailable. ► Dynamic analysis may not be useful for small tax policy changes. ►It takes significantly more time to produce a dynamic estimate compared to a static estimate. ►There is a greater level of uncertainty in the accuracy of dynamic analyses compared to static analyses. ► Differences between dynamic and static analysis are generally small. ► TABOR may complicate dynamic analysis because of the constitutional requirement to refund revenues.[4]

Board Position

On April 14, 2005, the Board voted to support HB05-1046, which creates a Legislative Council pilot program for the purpose of creating or acquiring a model for dynamic tax analysis.

About this Update

This update was prepared by Health District of Northern Larimer County staff to assist the Health District Board of Directors in determining whether to take an official stand on various health-related issues. Updates are based on bills or issues at the time of their consideration by the Board and are accurate to the best of staff knowledge. It is suggested that people check to see whether a bill has changed during the course of a legislative session by visiting the Colorado General Assembly web page at www.state.co.us/gov_dir/stateleg.html. To see whether the Health District Board of Directors took a position on this or other policy issues, please visit www.healthdistrict.org/policy.

About the Health District

The Health District is a special district of the northern two-thirds of Larimer County, Colorado, supported by local property tax dollars and governed by a publicly elected five-member board. The Health District provides medical, mental health, dental, preventive and health planning services to the communities it serves. Their mission is to improve the health of the community.

For more information about this analysis or the Health District, please contact Katherine Young, at kyoung@healthdistrict.org, or (970) 224-5209.

[4] Interim Committee on Economic Development – Business Personal Property Tax, Report to the Colorado General Assembly, Research Publication No. 532 (November 2004)