



COLORADO FISCAL POLICY INSTITUTE

Justice and Economic Security for *all* Coloradans

Issue Brief **March Revenue Projections – Trends After Six Months** April 13, 2006

On March 20 Legislative Council Chief Economist Mike Mauer presented the quarterly revenue projection for March 2006. The March figures are the last prior to the JBC sending the Long Bill to the General Assembly (this year the House of Representatives will be the first house to take up the Long Bill, after which it will move to the Senate).

This issue brief paper briefly reviews the trends over the past six months in some of the major revenue components, using the General Fund Overview as presented by Legislative Council. Three revenue estimates, those from September 2005, December 2005, and March 2006 are compared. The September numbers were, of course, prepared prior to the November 1 election in which Referendum C was passed by the voters, but were based on the assumption that Ref. C and D *would pass*; the December numbers were based on three additional months of revenues plus the knowledge that Ref. C had passed and Ref. D had not passed; and the March numbers take into consideration three additional months of revenue experience.

Below are five sets of tables, and graphical depictions, showing forecasts for the current and following five years, for:

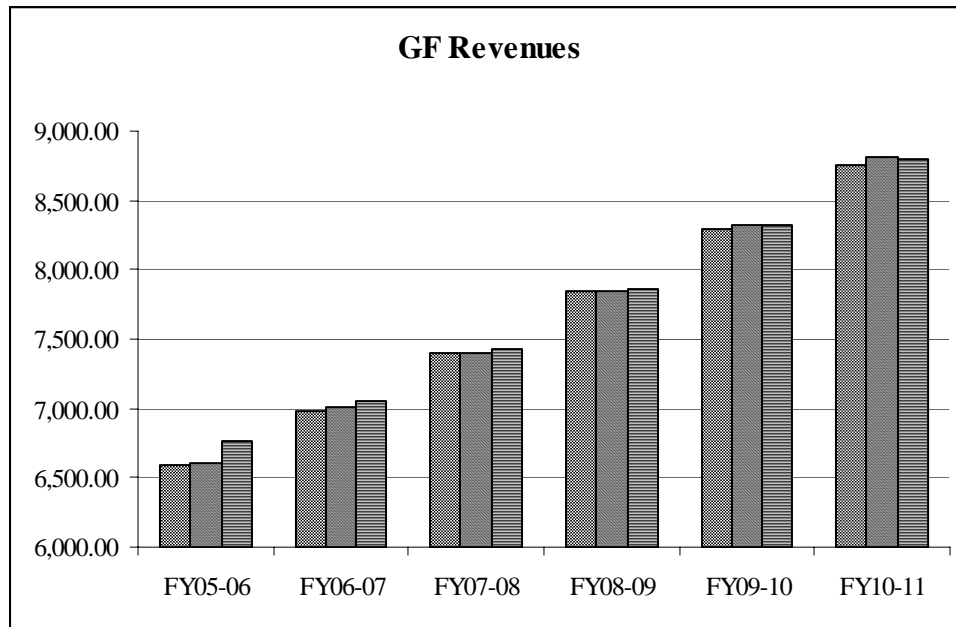
- Total General Fund Revenues
- The SB-1 Diversion to the Highway Users Tax Fund (HUTF),
- The amounts that could *potentially* flow into the HUTF and Capital Funds in a 2/3–1/3 ratio as “excess General Fund Revenues
- Projected Transportation Funding, and
- General Fund Operating Appropriations

General Fund Revenues

The first set of data is gross general fund revenues. Since last September, with the economy improving and tax revenues exceeding previous expectations, Leg. Council increased its five-year forecasts in both December and March. The overall increase in forecast-period revenues is around 0.8% (that is, \$46,235.3 vs. \$45,866.7). Exceptions include only FY07-08 (in December), FY09-10, and FY10-11 (both in March). These exceptions are italicized in the table below.

General Fund Revenues (\$ millions)							
Forecast	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10	FY10-11	Totals
Sept. 2005	6,584.8	6,976.7	7,400.5	7,847.3	8,295.6	8,761.8	45,866.7
Dec. 2005	6,604.6	7,003.1	7,400.2	7,850.5	8,327.6	8,814.9	46,000.9
Mar. 2006	6,769.2	7,059.4	7,424.1	7,859.4	8,322.2	8,801.0	46,235.3

In this and each of the following graphs, the three forecasts, September, December and March, are depicted as bars with checks, diagonal and horizontal cross-hatches, respectively. The purpose is to show, for each fiscal year, the progression as each new forecast was submitted.



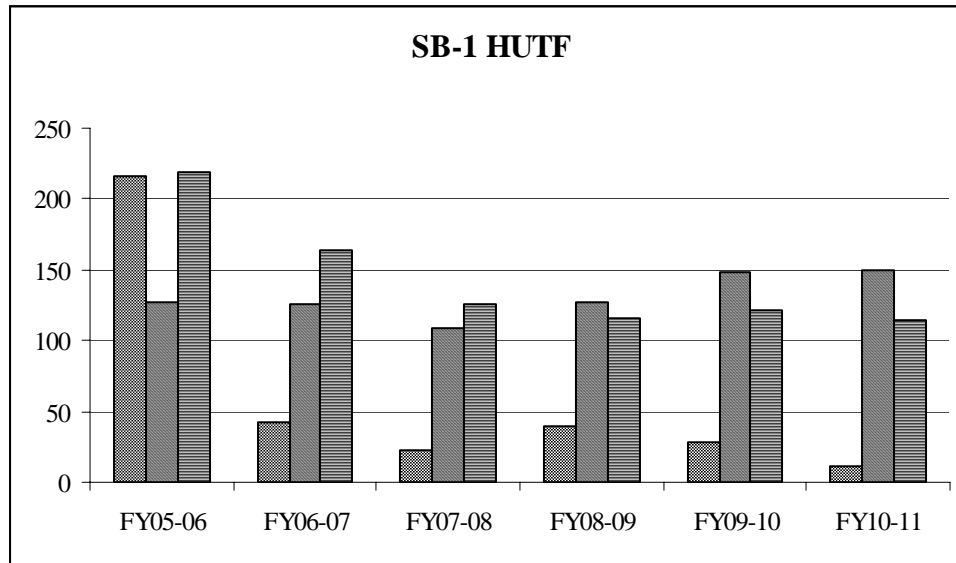
The higher total revenues shown in March are very much front-loaded. Without substantially more evidence that long term revenue trends have changed, in out years Leg. Council will continue to revert to percentage growth increases that it has historically seen. Annual growth rates in revenue reach 5.9% in the later years of the forecast (in fact for FY10-11 it is only 5.8%), similar to historical experience.

Senate Bill 1 Highway Users Tax Fund (HUTF) Diversion

Once the 6% Arveschoug-Bird limit for operational spending is reached, General Fund money then flows into the HUTF up to 10.335% of sales tax revenues (which for the current fiscal year is \$218.5 million). The table and graph below demonstrate dramatic changes to this diversion. Total diversions over the forecast period grew from \$359.9 million to \$860.1 million, an increase of almost 140%. In September, the SB-1 diversion was very front-loaded but trailed off substantially; it now (March) continues to show a large diversion in the current year, but also shows substantial new money in the out years. The additional money is a result of the steady improvement in the revenue forecast shown above.

As will be seen below, this is in contrast to growth in General Fund Operating Appropriations, which change little, despite improving overall revenue conditions.

SB-1 HUTF Diversion (\$ millions)							
Forecast	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10	FY10-11	Totals
Sept. 2005	215.9	41.8	23.3	39.0	28.9	11.0	359.9
Dec. 2005	126.8	125.8	108.7	127.7	148.5	150.1	787.6
Mar. 2006	218.5	163.7	125.6	116.3	122.0	114.0	860.1



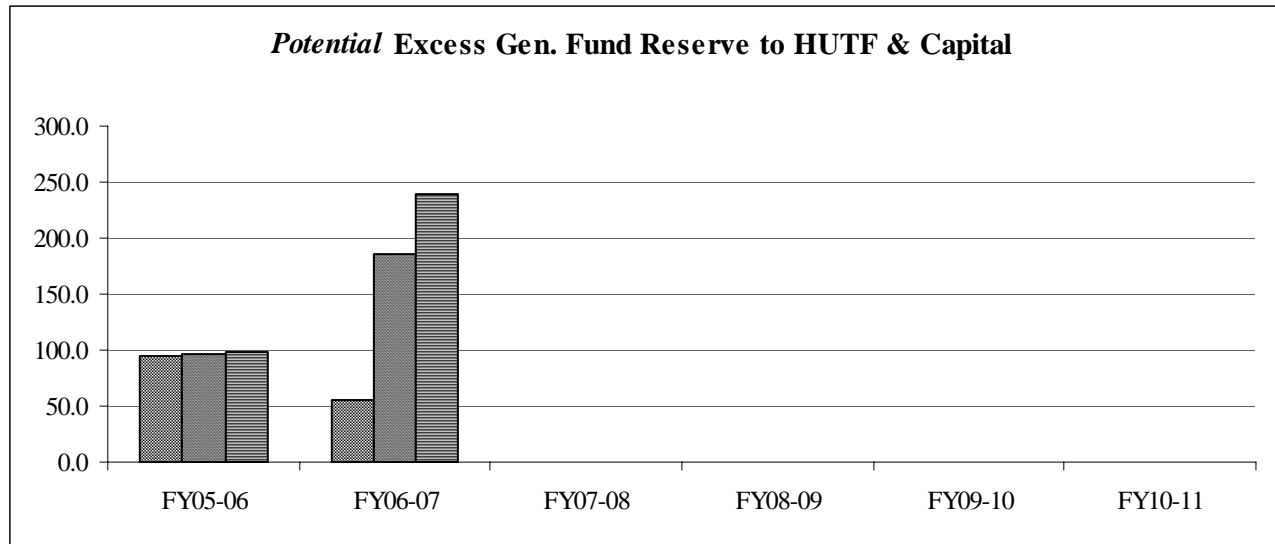
Potential Excess General Fund Reserve Transfer to HUTF and Capital

Once the maximum SB-1 diversion is reached, money remaining at the close of the fiscal year is then transferred, in a 2/3 – 1/3 split, to the HUTF and capital construction, respectively. Below are the table and graph showing the changes that have occurred in the forecast for this money (only the totals are shown – not each part of the HUTF-Capital split). As can be seen, FY06-07 shows dramatically increased potential transfers to highways and capital as the economic picture brightens. Instead of a forecast-period of \$150.1 million (September), it now stands at \$337.5 million, an increase of 124% in just six months.

[It should be noted that Leg. Council shows the transfer in the following fiscal year, since it occurs as a residual operation after the close of the fiscal year. Thus, the FY05-06 excess transfer occurs in FY06-07.]

Since the SB-1 diversion is capped at 10.335% of sales taxes, the Excess General Fund Reserve transfer only shows up when (a) the 6% operational spending limit is reached, and (b) the SB-1 diversion cap is also reached. Glancing at the table and graph above, it can be seen that SB-1 only tops out in FY05-06; therefore the Excess General Fund transfer (below) does not occur after FY06-07.

Potential Excess Gen. Fund Revenues to HUTF & Capital (\$ millions)							
Forecast	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10	FY10-11	Totals
Sept. 2005	94.0	56.1					150.1
Dec. 2005	95.6	186.0					281.6
Mar. 2006	98.0	239.5					337.5



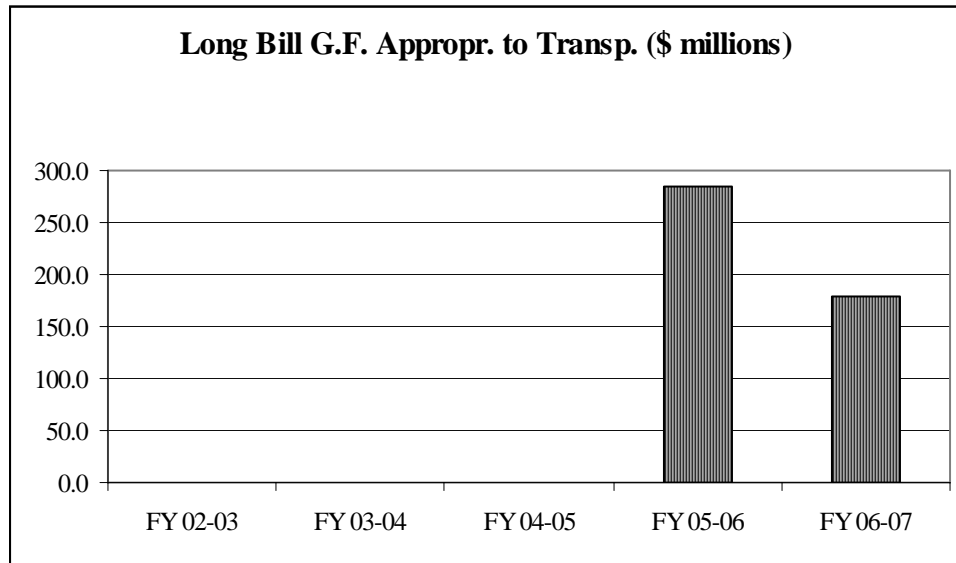
Will this money necessarily end up in the HUTF and Capital funds on a 2/3 – 1/3 split? **This is highly unlikely.** This is why the table and graph are labeled “potential.” The JBC and the General Assembly have the authority to appropriate this money, so long as they comply with the statutes governing the budget. If the Revenue estimates from Legislative Council are the ones that are officially adopted by the General Assembly, there are any number of places they could put this money, rather than passively allow it to revert as “excess general fund” as shown above. They could direct (appropriate) it to specific capital projects, make additional investments toward complying with the Giardino lawsuit (fixing/replacing substandard K-12 schools), enhance the senior property tax credit, or any other use that is not prohibited under Arveschoug-Bird.

In past years, these types of uses are exactly what the JBC has done with such funds that are forecast in the March revenue projections. In some years, the JBC has recommended that this money be placed into the line item for capital spending, as sort of a “placeholder” against anticipated spending needs in a subsequent year, the expectation being that it could be reprogrammed as necessary within the requirements of the law. Thus, the \$337.5 million over FY05-06 and FY06-07 constitute additional money that is available to the JBC and the General Assembly for programming at this time.

The Proposed FY06-07 Budget – Transportation

In the proposed FY06-07 budget (Long Bill, HB06-1385), the JBC is showing the following combined amounts of General Fund money being appropriated to transportation (from SB-1 and excess general fund reserves combined):

Long Bill G.F. Appropriations to Transportation (\$ millions)				
FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
0.0	0.0	0.0	283.9	178.9



The reason that these figures differ from those above is that the General Fund Overview numbers derive from Legislative Council preparing forecasts based on actions the JBC had taken as of March 20. In the days since Mar. 20, the JBC finalized its work on the Long Bill, which is now moving through the adoption process.

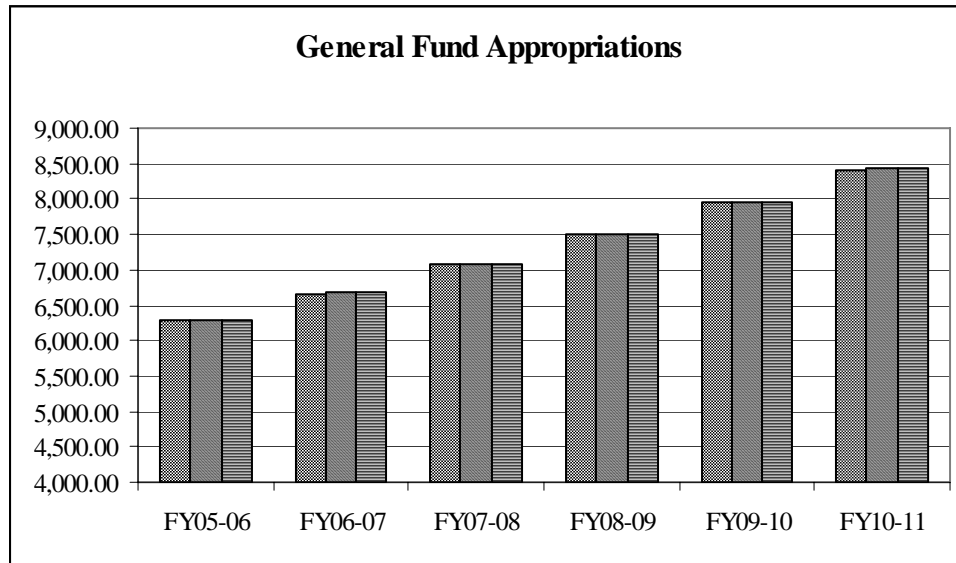
In none of the budgets passed during the recession were general funds expected to be transferred to transportation. *At fiscal year-end, there were modest amounts in fact transferred when there were excess general fund reserves.*

Thus, one effect of Referendum C will be a revival of the annual general fund diversions to transportation.

General Fund Appropriations

Finally, General Fund appropriations for operations (that is, not including the SB-1 diversion or the Excess General Fund Transfer) is shown in the table and graph below. This dollar amount is governed by the Arveschoug-Bird 6% limit. The most striking thing to notice is that essentially nothing changes here despite healthy improvements in the revenue picture from last September to this March.

General Fund Appropriations (\$ millions)						
Forecast	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10	FY10-11
Sept. 2005	6,291.3	6,668.8	7,068.9	7,493.1	7,942.6	8,419.2
Dec. 2005	6,292.7	6,670.3	7,070.5	7,494.7	7,944.4	8,421.0
Mar. 2006	6,292.7	6,670.3	7,070.5	7,494.7	7,944.4	8,421.0



Thus, while Referendum C removed the TABOR revenue cap for a five-year period, the 6% spending cap now governs how much governmental operations can grow. Any desire on the part of voters and the General Assembly to replace programs reduced or eliminated over the past five years must live within this 6% limit. All additional money beyond that limit will be made available for highways and capital projects.

Note on Long Bill – It may be noted here that the Long Bill, HB06-1385, introduced on March 27, shows total General Fund appropriations, exempt and non-exempt combined, of \$6,677.8 million, almost exactly the figure shown above in Leg. Council’s Mar. 20 forecast.

TABOR Rebates Return

Referendum C did remove the requirement to rebate roughly \$800 million per year beginning as a result of FY05-06. However, this change in the law will essentially represent a one-time (over 5 years) ratchet-up in the TABOR revenue limit. Beginning in FY11-12, assuming continued economic growth consistent with Leg. Council’s March forecast, rebates of \$800 million to \$1 billion per year would again commence. These rebates will affect both operations, as well as highway and capital projects.

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