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## **How the 6% Arveschoug-Bird Directive Works**

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#### **Summary**

The 6 percent Arveschoug Bird General Fund Appropriations provision dictates how Colorado can appropriate General Fund dollars. In 1991, the legislature lowered a cap on annual growth in General Fund appropriations to operating budgets from 7 percent to 6 percent. This provision, named for its legislative sponsors, is usually referred to as a spending limit, but it is actually a provision on appropriations, not spending. It is better understood as a spending formula because it directs where money can be spent rather than limiting how much can be spent. General Fund revenues collected above the 6 percent are still spent by the state –just not for operating expenses, such as educating students or paying for medical care. Currently, revenues that top the 6 percent limit are largely used to fund transportation and capital construction needs.

#### **History**

Sometimes known as the Arveschoug-Bird (AB) provision for the legislators who sponsored it in 1991, the 6% directive restricts growth in General Fund appropriations to the lesser of 5 percent of Colorado personal income or 6 percent over the previous year's total state General Fund appropriations.<sup>1</sup> Certain expenditures of general funds are excepted or excluded from the 6 percent directive.

#### **Exceptions**

Exceptions from the 6% include appropriations for property tax reappraisals, appropriations for new programs or increased service levels required by federal law or state or federal court order, appropriations for Medicaid over expenditures, voter approved expenditures over the limit, and appropriations for a state fiscal emergency.<sup>2</sup>

Exclusions from the 6% directive also include General Fund “transfers” to the Capital Construction fund, General Fund transfers to the Controlled Maintenance Trust Fund and statutorily required rebates and expenditures from the General Fund. For example, a portion of General Fund is required by permanent statute to be expended for grants to the elderly to assist with property tax and heat/fuel expenses and for state contributions to the statewide fire and police pension plan.

#### **State Budget Implications**

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<sup>1</sup> Colorado State, Legislative Council Staff, “State Limits on Appropriations and Spending,” Accessed 1 January 2004 <[http://www.state.co.us/gov\\_dir/leg\\_dir/lcs/Econ/2003/FinancialIssues/StateLimits.pdf](http://www.state.co.us/gov_dir/leg_dir/lcs/Econ/2003/FinancialIssues/StateLimits.pdf)> 1

<sup>2</sup> Ibid. 1-2.

Taking into consideration the exceptions and exclusions provided for in the 6 percent directive, the state annually calculates the allowable growth for the upcoming year by multiplying the prior year's actual General Fund appropriations (not including transfers) by 106%. In lean years, General Fund appropriations are limited by available revenue. In more prosperous times, they are limited by the prior year's 6% calculation. Whatever dollar figure results from the calculation becomes the appropriations limit for that year. Since FY 1991-92, the state has taken the appropriations base for the prior fiscal year and multiplied it by 106 percent to determine the allowable limit, since it is significantly lower than the State of Colorado's personal income.

### **The Ratchet Effect**

Any year that the General Assembly does not collect enough General Fund revenue to reach the 6% limit or chooses not to appropriate up to the limit, the appropriations base is lower and results in a lower appropriations limit for all subsequent fiscal years. To avoid this "ratchet effect" on spending, when revenue collections permit, legislators generally attempt to "preserve the base" and appropriate up to the limit each year.

Some government programs and services, funded by General Funds, grow faster than 6% each year. Regardless, the General Assembly must accommodate the need within the 6% directive. This has resulted in fast growing programs consuming a larger share of General Fund each year and "crowding out" other programs.

### **Impact on State Budget Priorities**

It is important to note that the crowding out effect happens even in years when there are more general funds collected within the TABOR revenue limit than the 6% appropriations limit allows to the legislature to appropriate. In years when the state collects General Funds below the TABOR limit, but above the 6% appropriations limit, even if Medicaid or K-12 education costs grow at, say, 8% over the prior year, the state cannot use the funds above the 6% limit for programs. Instead, it must hold the excess general funds in a reserve account, transfer funds to transportation needs and finally transfer funds to the capital construction fund for use on capital projects only.

### **Where the Rest of the Money Goes: A Question of How It's Spent, Not How Much**

So what exactly happens to general fund revenues that exceed the 6% appropriations limit? After 6% general fund appropriations are met, limited general fund obligations outside of the 6% are satisfied and the a statutory 4% general fund reserve account is filled. Any overflow revenue spills first into funding for transportation, known as the Senate Bill 97-1 diversion (SB-1). Senate bill 97-01 diverts 10.355 percent of state sales and use tax revenue from the General Fund to the state's main source of highway funding, the Highway Users Tax Fund (HUTF). The diversion only occurs if there is enough money available to fund the 6% growth rate and the statutory reserve.<sup>3</sup> Current projections do not foresee a diversion of revenue to the HUTF in FY 2008-09 or FY 2009-10, but do expect SB 97-1 diversions to return in FY 2010-11.<sup>4</sup> After the SB-1 transfer is made, any remaining excess revenues flow into the Excess General Fund Reserve Account. In 2002, the Colorado Legislature passed HB 1310 which requires monies in the excess general fund reserve account to be divided 1/3 for capital construction projects and 2/3 for highways.<sup>5</sup> Prior to the passage of HB 1310, these funds were used as additional reserve since the 6% appropriations limit had been interpreted to mean that they could not be used for programs.<sup>6</sup>

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<sup>3</sup> Colorado State, Legislative Council Staff, "Transportation Finance" (Denver: Legislative Council, 2002) 2.

<sup>4</sup> "Focus Colorado: Economic and Revenue Forecast, 2008-2012, December 19, 2008", 2.

<sup>5</sup> "Transportation Finance". 2.

<sup>6</sup> "Focus Colorado: Economic and Revenue Forecast, 2007-2012, December 20, 2007", 4