Economic and Budget Outlook

SB 09-228 Transfers

The Basics of TABOR

TABOR and Revenue Management

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Colorado School Finance Project
January 24, 2014
The Spring of this Recovery

- The Private Sector is Rebounding
  - Business is doing well
  - Manufacturing subject to cycles, but holding its own
  - The labor market continues to improve
  - The housing market is in recovery
  - Households and banks are in better financial shape

Federal Reserve Assets

Source: Federal Open Market Committee.
**FY 2013-14 General Fund Budget**

**General Fund Operating Budget**

- K-12 Education: 38%
- Health Care: 26%
- Human Services: 9%
- Other: 6%
- Higher Education: 8%
- Corrections: 8%
- Judicial: 5%

**FY 2013-14 General Fund Revenue Outlook**

Bars represent LCS Forecast
Dots represent OSPB Forecast

Caseload Growth & the General Fund Budget

*FY 2012-13 contains forecasts.

What About the Next 15 Years?

- The aging of the population will:
  - Change the housing mix, likely dampening growth in housing values and the property tax base;
  - Change income and spending patterns, likely dampening growth in the income and sales tax bases; and
  - Increase demand for government services, applying further budget pressure on governments.
  - The economy is still recovering and must work through debt and imbalances before growing again at potential.

Thank you to Elizabeth Garner and the Office of the State Demographer for their research on this topic.
Senate Bill 09-228 Transfers

As A Percent of General Fund Revenue

- Capital Construction
- Transportation

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<th>Year</th>
<th>FY 2015-16?</th>
<th>Year 2</th>
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- $50.3 million FY 2015-16
- $201.0 million FY 2015-16

Senate Bill 09-228 Transfers and TABOR

- Year One
  - FY 2015-16, if Personal Income Increases by At Least 5% in 2014
  - Total SB 09-228 Transfers and TABOR Surplus

- SB 09-228 Transfers
- TABOR Surplus
TABOR Basics

VOTER-APPROVAL REQUIREMENTS

TABOR AND REFERENDUM C

REFUND MECHANISMS

**TABOR Voter-Approval Requirements**

- New tax or rate increase; a tax policy change resulting in a net revenue gain.
- Retain revenue from existing sources above the TABOR limit.

- Increase Taxes
- Retain Surplus Revenue
- Weaken Existing Limits
- Increase Debt

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January 24, 2014
TABOR Does Not Require Voter-Approval For:

- Reducing a tax imposed by statute
- Increasing a fee; or
- Creating a new fee

Source: Colorado State Controllers Office and Legislative Council Staff.

*Legislative Council Staff December 2013 forecast.

Source: Colorado State Controllers Office and Legislative Council Staff.
TABOR Spending Revenue Limit

- **TABOR Limit**
  Previous fiscal year's *spending* grown by inflation & population growth + Voter-approved revenue changes

- **Referendum C Cap**
  - Highest revenue retained during “five-year timeout” period
  - Previous fiscal year’s *cap* grown by inflation and population growth
The TABOR Limit

Bars Show Revenue Subject to TABOR

Current Law TABOR Limit, (Includes Referendum C)

Pre-Referendum C TABOR Limit

Referendum C Timeout Period

*Legislative Council Staff December 2013 forecast.

Source: Colorado State Controllers Office and Legislative Council Staff.

What Revenue is Subject to TABOR?

General Fund Revenue (Subject to TABOR)

Corporate Income Tax

Insurance Taxes

All Other

Sales & Use Taxes

Individual Income Tax

Regulatory Agencies

Gaming Revenue

Severance Tax

Hospital Provider Fee

Transportation-Related

Cash Funds Revenue (Subject to TABOR)

General Fund 33%

TABOR-Exempt 57%

Cash Funds 10%

TABOR Exempt Revenue (Includes Cash Funds Also)

Federal Funds

All Other Revenue

Enterprises

Current TABOR Refund Mechanisms

If, in FY 2013-14, the TABOR surplus is...

- up to $94.5M
  - Six-Tier Sales Tax Refund
    - Trigger Amount: Up to $94.5M
    - Refund Amount: Up to $94.5M

- $94.5M to $285.2M
  - Earned Income Tax Credit
    - Trigger Amount: $94.5M
    - Refund Amount: $82.1M

- $285.2M or more
  - Temporary Income Tax Rate Reduction
    - Trigger Amount: $285.2M
    - Refund Amount: $190.5M
  - Six-Tier Sales Tax Refund
    - Refund Amount: $12.4M to $203.1M

TABOR and Revenue Management

Great Sand Dunes
Revenue Management under TABOR

**TABOR Limit**

- **Binding**
  - Cut Taxes
  - Restrain Fee Growth
  - Voter-Approved Revenue Changes
  - Enterprise Status

- **Not Binding**
  - Expand Sales and Income Tax Base
  - Increase or Create New Fees
  - Enterprise Status

The TABOR Limit is binding when revenue exceeds the limit, producing a TABOR surplus.

The TABOR Limit is not binding when revenue falls short of the limit.

Statutory Revenue Management Under TABOR

- **During Surplus Years:**
  - Tax Cuts
  - Restrain Fee Growth

- **During Non-Surplus Years:**
  - Fee Increases
  - Armed with 2009 Supreme Court Decision, Specific Tax Revenue Increases via Repeal of Credits, Deductions, and Exemptions

- **In Anticipation of Surplus Years:**
  - Greater Use of Enterprise Status
    - Allows Flexibility to Increase Fees
  - Voter-Approved Revenue Changes

Garden of the Gods
Colorado Springs, CO
Enterprise Status Case Study: Higher Education

Voter-Approved Revenue Changes under TABOR

- Citizen-Initiated for Special Interests:
  - 2000: Amendment 23 K-12 Education
  - 2004: Cigarette and Tobacco Tax Rate Increase for Health Programs

- Referred Measure for General Purpose Government:
  - 2005: Referendum C

Rocky Mountain National Park as it may appear on election day, the first Tuesday in November.
State Revenue and the TABOR Limit

Discussions for Going Forward

- How close are we?
- What does that mean for revenue raising bills?
- Will a tax credit postpone a surplus?
- Enterprise status?
Discussions for Going Forward

Your thoughts?