



REVISIED CONDITIONAL FISCAL IMPACT

(replaces fiscal impact dated February 1, 2005)

Drafting Number: LLS 05-0454	Date: March 10, 2005
Prime Sponsor(s): Rep. Romanoff	Bill Status: House 3 rd Reading
Sen. Johnson	Fiscal Analyst: Harry Zeid (303-866-4753)

TITLE: CONCERNING AN ADJUSTMENT TO THE AMOUNT OF STATE REVENUES IN EXCESS OF THE LIMITATION ON STATE FISCAL YEAR SPENDING IN SECTION 20 (7) OF ARTICLE X OF THE STATE CONSTITUTION IN ORDER TO PROVIDE A MORE STABLE MEANS OF FUNDING STATE BUDGETARY NEEDS, AND, IN CONNECTION THEREWITH, REDUCING THE STATE INCOME TAX RATE FROM FOUR AND SIXTY-THREE ONE-HUNDREDTHS PERCENT TO FOUR AND ONE-HALF PERCENT, AUTHORIZING THE STATE TO RETAIN AND SPEND ALL STATE REVENUES IN EXCESS OF THE CONSTITUTIONAL LIMITATION ON STATE FISCAL YEAR SPENDING, REQUIRING THE EXCESS STATE REVENUES TO BE USED TO REDUCE THE COST OF HEALTH INSURANCE FOR INDIVIDUALS AND SMALL BUSINESS, TO FUND PUBLIC EDUCATION, AND TO PAY FOR STRATEGIC TRANSPORTATION PROJECTS, AND REQUIRING THAT A QUESTION BE SUBMITTED TO THE VOTERS IN 2015 TO RESTORE THE INCOME TAX RATE TO ITS CURRENT LEVEL AND TO ELIMINATE THE STATE'S AUTHORITY TO RETAIN AND SPEND SUCH EXCESS STATE REVENUES.

Fiscal Impact Summary	FY 2005/2006	FY 2006/2007
State Revenues		
General Fund		
Income Tax Revenue Reduction	(\$61,800,000)	(\$132,800,000)
Amount Retained from Excess TABOR Revenue (after tax reduction)**	545,800,000	507,000,000
State Expenditures		
General Fund*	\$3,642	
FTE Position Change	0.0 FTE	0.0 FTE
Other State Impact:		
Impact to TABOR Refund Mechanisms**	(\$607,600,000)	(\$639,800,000)
Effective Date: Upon approval by the voters at the November 2005 General Election		
Appropriation Summary for FY 2005/2006: Department of Revenue - \$3,642 General Fund*		
Local Government Impact: None Identified		

**The \$3,642 identified above is for computer programming resource requirements of the Department of Revenue. If resources for computer programming are included in the Long Bill appropriation for the department, no further appropriation will be necessary.*

***Under current law, these amounts would be refunded in the following year. Note that of the refund amount for FY 2005-06, \$161.3 million is actually surplus revenue collected in FY 2004-05 to be refunded in FY 2005-06.*

Summary of Legislation

This reengrossed bill refers a measure to the voters of the state at the November 2005 General Election. The bill reduces the state income tax rate from 4.63 percent to 4.50 percent effective for income tax years commencing on or after January 1, 2006, but before January 1, 2016. The General Fund Exempt Account would be created in the state General Fund, and would consist of moneys equal to the amount of state revenues in excess of the limitation on state fiscal year spending that the state retains for a given fiscal year. Moneys in the account would be appropriated or transferred by the General Assembly for the following purposes:

- to reduce the cost of health insurance for individuals and small businesses;
- to fund public education for preschool through 12th grade education as required by Section 17 of Article IX of the State Constitution (known as Amendment 23);
- replenishing the State Education Fund to be used for specific purposes;
- appropriating funds for the College Opportunity Fund Program and for Student Financial Assistance; and
- to pay for strategic transportation projects included in the Department of Transportation's strategic transportation project investment program.

The bill also requires that a ballot question be submitted to the voters of the state at the November 2015 General Election to ask whether the state should continue to be authorized to retain and spend all excess state revenues and maintain the state income tax rate at 4.50 percent, or whether the state should be denied the authorization to retain and spend excess state revenues and increase the state income tax rate back to 4.63 percent beginning with the 2016 income tax year.

The bill requires the Director of Research of the Legislative Council to annually prepare a financial report that identifies the amount of excess state revenues that the state retained in the prior fiscal year, and a description of how the excess state revenues were spent. A link to the financial report would be provided on the official Colorado state website.

Since the bill would only become effective upon approval by the voters, the bill is assessed as having a state conditional fiscal impact.

State Revenues

The bill would affect state revenues in two ways. First, revenue would be reduced for a period of ten years through the reduction in the income tax rate, and second, the state would be allowed to retain surplus revenue that would be refunded to taxpayers under the current constitutional requirements of TABOR during that period of time.

Income Tax Rate Reduction. Upon voter approval, the bill would reduce the state income tax rate from 4.63 percent to 4.50 percent for a ten-year period, effective for income tax years commencing on or after January 1, 2006. State General Fund revenue would be reduced by an estimated \$61.8 million in FY 2005-06 (based on one-half year on an accrual accounting basis for the January 1, 2006 through June 30, 2006 period), \$132.8 million in FY 2006-07, and \$142.5 million in FY 2007-08, as compared to current law.

Retention of State TABOR Surplus. The bill authorizes the state to retain and spend all state revenues that are greater than the limitation of state fiscal year spending for designated purposes during FY 2006-07 through FY 2015-16. After accounting for reduced state revenues as a result of the reduction in the income tax rate, the state would be authorized to retain an estimated \$545.8 million in FY 2005-06, \$507.0 million in FY 2006-07, and \$492.6 million in FY 2007-08.

Future Revenue Impact. The bill requires that a ballot question be submitted to the voters at the November 2015 General Election to ask whether the state should continue to be authorized to retain and spend all excess state revenues and maintain the state income tax rate at 4.50 percent, or whether the state should be denied the authorization to retain and spend excess state revenues and increase the state income tax rate back to 4.63 percent beginning with the 2016 income tax year.

State Expenditures

The bill establishes the General Fund Exempt Account in the state General Fund to consist of moneys equal to the amount of state revenues in excess of the limitation on state fiscal year spending that the state retains for a given fiscal year. From FY 2006-07 through FY 2015-16, moneys in the account would be appropriated or transferred by the General Assembly for the following purposes:

- to reduce the cost of health insurance for individuals and small businesses;
- to fund public education for preschool through 12th grade education as required by Section 17 of Article IX of the State Constitution (known as Amendment 23);
- replenishing the State Education Fund to be used for specific purposes;
- appropriating funds for the College Opportunity Fund Program and for Student Financial Assistance; and
- to pay for strategic transportation projects included in the Department of Transportation's strategic transportation project investment program.

Department of Revenue Expenditures. Modification of the state income tax rate from 4.63 percent to 4.50 percent will require 80 hours of computer programming. Based on the job rate of \$45.52 per hour for an IT Pro II, \$3,642 in one-time personal services will be required. Computer programming resources identified in this fiscal note may also be included in the FY 2005-06 Long Bill appropriation for the Department of Revenue. If these resources are provided in the Long Bill, no further appropriation will be necessary to implement the rate changes required by the bill.

State Summary

Based on the revenue estimates provided in the December 2004, Revenue Estimate by Legislative Council Staff, Table 1 summarizes the projected impact of HB05-1194 on state revenues and expenditures. The additional state revenue would allow the annual growth rate in General Fund appropriations to reach the maximum 6.0 percent level beginning in FY 2005-06.

Table 1. Projected Fiscal Impact of HB05-1194 (Millions of Dollars)

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
General Fund Revenue		(\$61.8)	(\$132.8)	(\$142.5)	(\$153.4)
General Fund Appropriations		339.0	496.7	526.5	558.1
SB 97-1 Diversion		193.2	4.1	(35.1)	28.6
4.0 Percent Statutory Reserve		13.6	19.9	21.1	22.3
TABOR Surplus Liability	(\$161.3)	(446.3)	(639.8)	(635.1)	(741.4)

Other State Impacts

Table 2 shows the projected impact to the various refund mechanisms currently in place based on the amount that would be retained in the state General Fund. Blank cells in the table indicate that the mechanism is not forecasted to be triggered and used to refund revenue during that fiscal year.

Table 2. Impact of HB05-1194 on Current TABOR Refund Mechanisms (Millions of Dollars)

	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-2009
HB 99-1383 & HB 00-1049 Earned Income Credit	(\$35.5)	(\$36.2)	(\$36.9)	(\$37.6)
HB 01-1313 Foster Care Issues		(\$0.2)	(\$0.2)	(\$0.2)
HB 99-1311 Business Personal Property		(\$117.7)	(\$123.6)	(\$129.7)
HB 99-1237 Capital Gains		(\$36.8)	(\$36.0)	(\$35.3)
HB 00-1063 Rural Health Providers (ends after FY 2007)		(\$0.2)	(\$0.2)	n/a
HB 00-1351 Child Care Credit		(\$28.6)	(\$29.0)	(\$29.4)
HB 01-1081 Research and Development		(\$14.5)	(\$15.2)	(\$15.9)
HB 00-1227 Lower Motor Vehicle Fees		(\$40.1)	(\$41.6)	(\$43.0)
HB 00-1355 High Technology Scholarship Program*		(\$0)	(\$0)	(\$0)
HB 00-1257 Pollution Control Equipment		(\$1.0)	(\$1.0)	(\$1.0)
HB 00-1052 Contribution to Telecommunication Education			(\$0.5)	(\$0.5)
HB 00-1053 Exclude Charitable Contributions			(\$3.7)	(\$3.8)
HB 00-1259 Trucks at 0.01 Percent Sales Tax Rate			(\$7.0)	(\$7.3)
HB 99-1137 and HB 00-1171 Interest, Dividends, and Capital Gains Exclusion			(\$45.4)	(\$47.2)
HB 01-1086 Ag Coop Tax Credit			(\$0.5)	(\$0.5)
HB00-1104 Purchase Private Health Benefit Plans			(\$2.7)	(\$2.7)
HB00-1209 Colorado Capital Gains 1 to 5 Years			(\$33.0)	(\$36.6)
Sales Tax Refund	(\$125.8)	(\$171.1)	(\$263.3)	(\$244.3)
Total	(\$161.3)	(\$446.3)	(\$639.8)	(\$635.1)

**Less than \$10,000*

Election Expenditure Impacts (For Informational Purposes Only)

The bill refers a measure to the voters at the 2005 general election. This measure will be published in newspapers and an analysis of the measure will be included in the Blue Book mailed to all registered voter households prior to the election. Under current law, costs for these functions will be paid through a General Fund line item in the Long Appropriations Bill. The estimated 2005 general election costs for the Blue Book are outlined in Table 3.

Table 3. Estimated Costs of Producing the 2005 Blue Book and Distributing to All Registered Voter Households	
Printing	\$120,000
Postage	\$275,000
Translation	\$5,000
Newspaper Publication (English & Spanish)	\$200,000
Total Expenses (for estimated 3 issues)	\$600,000
Average Expense Per Issue	\$200,000

State Appropriations

The fiscal note implies that if the bill is approved by the voters at the November 2005 General Election, the Department of Revenue will require a General Fund supplemental appropriation in the amount of \$3,642. However, if the department's FY 2005-06 budget request for ongoing computer programming resources is approved, no additional appropriation would be required.

Departments Contacted

Legislative Council Staff Revenue Secretary of State