

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 14-0652
Prime Sponsor(s): Sen. Hill

Date: April 7, 2014
Bill Status: Senate Appropriations
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SHORT TITLE: ONE PERCENT REDUCTION IN THE STATE BUDGET

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
State Revenue		
State Expenditures	<u>(\$1,143,393,754)</u>	
<i>State appropriations and spending</i>	<i><u>(\$1,905,356,897)</u></i>	
General Fund	(647,724,883)	
Cash Funds	(114,238,261)	
Federal Funds	(1,143,393,754)	
<i>Taxpayer refunds</i>	<i><u>\$761,963,143</u></i>	
General Fund	647,724,883	
Cash Funds	114,238,261	
FTE Position Change	Decrease	
Appropriation Required: Reduction of \$1.9 billion - Multiple agencies (FY 2014-15)		

* This summary shows changes from current law under the bill for each fiscal year. The state expenditure impact is based on the impact of the bill if House Bill 14-1366 (Long Bill) is enacted prior to the passage of this bill.

Summary of Legislation

The bill requires appropriations to each executive department, the Judicial Branch, and the Legislative Department in FY 2014-15 to be reduced by one percent from FY 2013-14 levels. The reduction also applies to cash fund spending continuously appropriated to departments and expenditures of federal funds. Exceptions to the one-percent reduction are made for new cash funds created and new federal funds received in FY 2014-15.

By September 1, 2014, the staff director of the Joint Budget Committee and each state agency must report to the state controller the total amount of appropriations and spending reduced under the bill. The state controller must certify the reduction amount and then the Department of Revenue shall refund that amount to taxpayers as part of the 2014 tax year filing in the same manner as for a Taxpayer's Bill of Rights (TABOR) refund.

State Expenditures

In FY 2014-15, the bill is expected to reduce state appropriations and spending by up to \$1.9 billion and result in a taxpayer refund of \$762 million, equaling a net reduction in expenditures of \$1.1 billion for the year. Each state agency must have a one-percent total spending reduction; however, the General Assembly may determine how the reduction is applied within each agency's appropriations. Table 1 shows the estimated reduction in appropriations and spending for all departments under the bill.

Assumptions. In calculating the reduction in spending required under the bill, the fiscal note makes the following assumptions:

- total appropriations and spending by state agencies, including all continuously appropriated cash funds and federal funds, are accounted for in the Long Bill for each fiscal year;
- total appropriations for FY 2013-14 is \$21.1 billion, including supplemental appropriations;
- the target appropriation for FY 2014-15 under the bill, with a one-percent reduction from the FY 2013-14 level, is \$20.9 billion;
- appropriations for FY 2014-15 will be \$22.8 billion under House Bill 14-1366 (Long Bill) and other budget package legislation, with these bills being enacted prior to the enactment of this bill;
- the Long Bill and budget package appropriations are used as the starting point for determining the total reduction from current law required to meet the target spending level of the bill; and
- reappropriated funds are excluded from this analysis to avoid double counting of funds.

Cost Components	General Fund	Cash Funds	Federal Funds	Total
FY 2013-14 Appropriations	\$8,336,461,553	\$6,661,404,191	\$6,139,731,784	\$21,137,597,528
One-percent Reduction	83,364,616	66,614,042	61,397,318	211,375,975
FY 2014-15 Target Appropriation (SB 14-085)	8,253,096,937	6,594,790,149	6,078,334,466	20,926,221,553
FY 2014-15 Appropriations (HB 14-1366)	8,900,821,820	6,709,028,410	7,221,728,220	22,831,578,450
TOTAL REDUCTION	(\$647,724,883)	(\$114,238,261)	(\$1,143,393,754)	(\$1,905,356,897)

Taxpayer refunds. The reduced appropriations and spending under the bill must be refunded to taxpayers as prescribed under law. Assuming only General Fund and cash fund expenditure reductions are returned to taxpayers in Colorado, the total amount of refunds issued in FY 2014-15 as part of the 2014 tax year is estimated to be \$762 million. The Department of Revenue may have a workload impact to implement the required refund, but this can be accomplished within existing appropriations.

Other considerations. The bill will affect reappropriated funds transferred between state agencies. These appropriations must be adjusted to account for the reductions in appropriations to the original agency receiving the funds. In addition, the General Assembly must determine how to apply the one-percent reduction to each state agency. Given that some appropriations are specifically set in other provisions of statute or the constitution, not all appropriations or spending may be able to be reduced by one percent. Thus, to meet the one percent reduction for each agency, some line items within an agency may be reduced by more than one percent to account for areas where reductions cannot be implemented. Depending on how the reduction is implemented, a reduction in FTE in each state agency will also occur.

Legislature. In order to determine how the one-percent reduction is implemented, the Joint Budget Committee Staff will likely have additional workload. If this work cannot be accomplished within the remaining days of the legislative session, a special session may be required. Currently, the General Assembly budgets for 20 days of special session per year; if more than this is required, additional appropriations are required to the legislative department (approximately \$20,000 per day of special session).

Local Government Impact

To the extent that moneys are appropriated to state agencies and allocated to local governments, the bill will reduce available revenue to state governments from these sources. At this time, reductions to specific state funding to local government for programs and operations have not been calculated.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

Assuming this bill is enacted after the FY 2014-15 Long Bill, the bill requires reductions to all state departments totaling \$1,905,356,897 in FY 2014-15. This reduction includes \$647,724,883 General Fund, \$114,238,261 cash funds, and \$1,143,393,754 federal funds.

State and Local Government Contacts

All agencies