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MEMORANDUM

October 16, 2006

TO: Interested Persons

FROM: Kirk Mlinek, Director, (303) 866-3521

SUBJECT: Excess State Revenue Report

This memorandum is prepared in accordance with the requirements of Referendum C passed by the voters in 2005. The memorandum is required to report the amount of excess state revenue that the state retained under the referendum and how the excess state revenue was spent for the preceding year.

The state collected \$1,115.0 million in nonexempt revenue under the provisions of Referendum C during state fiscal year 2005-06. However, at the time the budget was passed the state was expecting \$815.1 million in nonexempt revenue for the year. This report will be amended as allowed by law when the state balances spending to the final revenue numbers.

Referendum C requires the state to spend retained revenue on health care, education, fire and police retirement plans, and strategic transportation projects. Table 1 shows the distribution of the \$815.1 million that was expected at the time the budget was prepared. House Bill 05-1194 further stipulated how the money should be spent. First, because Referendum D failed at the ballot in 2005, an amount equal to the bond payments had Referendum D passed may be spent on any of the items allowed by Referendum C. That amount was \$55.0 million during FY 2005-06. The remaining amount is to be split one-third each to health care, K-12 education, and higher education. So, \$760.1 million was allocated one-third each (\$253.4 million) to K-12 education, health care, and the College Opportunity Fund payment. Further, a portion of the remaining \$55.0 million funded the volunteer firefighter retirement plans payment, the fire and police pension association old hire plans payment, and the spending on transportation projects ($\$3.7 + \$25.3 + \$10.0 = \39.1 with rounding). It also allowed for an additional \$8.0 million to be spent on K-12 schools and an additional \$7.9 million to be spent on health care ($\$8.0 + \$7.9 + \$39.1 = \55.0).

Table 1
Spending of Retained Revenue During FY 2005-06

Program	Dollars (Millions)
Education for K-12 School Total Program Funding	\$261.4
Health Care for Medical Services Premiums	\$261.3
Education for College Opportunity Fund Stipends	\$253.4
Volunteer Firefighter Retirement Plans	\$3.7
Fire and Police Pension Association- Old Hire Plans	\$25.3
Transportation Projects	\$10.0
TOTAL	\$815.1

The following issues should be noted when evaluating this report. First, the state would have faced a significant budget shortfall had Referendum C not passed. Therefore, in many instances the money spent in Table 1 does not equal new money to the programs, but simply maintained the programs and prevented them from undergoing cuts. It is money the programs may not have received without Referendum C, but it is not additional money when compared with the prior year. It is impossible to enumerate this impact because it would require knowledge of what budgetary actions the state would have taken had Referendum C failed.

Second, passage of Referendum C did not amend other requirements in law that limit the spending of state money. The most relevant of these is the six percent Arveschoug-Bird spending limit. This limit prohibits General Fund appropriations growth of greater than six percent in any given year. Therefore, no matter how much additional money is made available for spending within the appropriations limit, any money available above that limit will be forced into other areas. Currently, the benefactors of those laws are the Senate Bill 97-1 diversion for transportation and the House Bill 02-1310 transfers for transportation and capital construction. While these areas may have received funds that would not have otherwise been available, they did not receive funding directly from Referendum C.

Finally, after passage of Referendum C, the state was able to increase funding in FY 2005-06 up to the allowable six percent limit from a lower amount that was previously budgeted. While this increase was not funded directly with Referendum C dollars, the state did split this additional General Fund spending one-third to health care programs, one-third to higher education programs, and one-third to K-12 education programs to follow the intent of Referendum C.