

Colorado Economic Perspective

**State Revenue and
Economic Projections
through FY 2004-05**



Office of State Planning and Budgeting
March 20, 2000

MEMORANDUM

TO: Governor Bill Owens
Members of the General Assembly

FROM: Office of State Planning and Budgeting

DATE: March 8, 2000

SUBJECT: **March 2000 Revenue Forecast**

The following abridged version of the *Colorado Economic Perspective* is provided because of the expedited schedule for the release of the March 2000 revenue forecast. We will include the national and Colorado economic forecasts with the March 2000 *Colorado Close-Up*.

Summary

- In FY 1998-99, the TABOR surplus was \$679.6 million. The TABOR surplus is estimated to be \$843 million in FY 1999-00 and \$963 million in FY 2000-01. In total, from FY 1999-00 through FY 2004-05, we expect the state to exceed its TABOR limit by \$7.0 billion.
- In FY 1999-00, the fiscal year-end General Fund reserve is forecast to be \$703.7 million, with monies in excess of the statutory reserve equal to \$503.3 million. By FY 2004-05, the fiscal year-end General Fund reserve will grow to \$1,210.4 million, and the excess General Fund reserve will increase to \$942.3 million. The monies in excess of the General Fund required reserve are typically used for capital expenditures and tax relief.
- After growing 7.3 percent in FY 1998-99, growth in General Fund revenues is expected to slow to 6.9 percent in FY 1999-00. Slower growth in General Fund revenues occurs mainly because of the \$279 million tax reduction package passed in the 1999 legislative session. Moreover, we expect a reduction in estate tax receipts, interest income, and court receipts, and a change in the state's Medicaid disproportionate share program.

This memorandum provides a brief overview of the Office of State Planning and Budgeting (OSPB) March 2000 General Fund and cash fund revenues forecast. First, the memorandum discusses the surplus due to limits imposed by the Taxpayer's Bill of Rights (TABOR) — Article X, Section 20

of the Colorado state constitution. Next, the memorandum provides a brief description of the General Fund overview and impacts of proposed tax cuts. Finally, a short explanation of the cash fund revenue forecast is provided.

The TABOR Surplus

Table 1 displays the anticipated TABOR surplus during the six-year forecast period. The forecast of the TABOR surplus reflects current law, including the lower 4.75 percent income tax rate and other permanent tax reductions enacted during the 1999 legislative session. Even given these tax cuts, however, Colorado’s TABOR surplus is expected to range from \$842.5 million in FY 1999-00 to \$1.5 billion in FY 2004-05. On average, the state’s TABOR surplus is expected to be \$1,167 million per year during the six-year period. Detailed calculations of the TABOR surplus can be found in *Table 2*.

Table 1
Estimated TABOR Surplus Revenues
(millions of dollars)

Fiscal Year	TABOR Surplus
1999-00	\$842.5
2000-01	963.1
2001-02	1,056.5
2002-03	1,218.2
2003-04	1,387.3
2004-05	1,533.0
Cumulative Total	\$7,000.6

How has the estimate of the TABOR surplus changed since December 1999?

Our forecast for the TABOR surplus increased \$131.3 million in FY 1999-00 and \$163.8 million in FY 2000-01. The forecast for the TABOR surplus has changed since the December 1999 revenue forecast for two reasons: an increased TABOR limit and stronger-than-anticipated revenue growth. First, the U.S. Bureau of the Census raised the estimate for the state’s 1999 population. This increases the TABOR limit and allows the state to retain more TABOR revenues. The growth rate for the Colorado population increased to 2.2 percent from 1.9 percent, thereby increasing the allowable TABOR growth rate to 5.1 percent from 4.8 percent for FY 2000-01.

Although the revised population figures increased the TABOR limit, strong revenue growth also increased the TABOR surplus. The second change to the forecast for TABOR surplus revenues is the upward revision of the General Fund and cash fund revenue forecasts. For FY 1999-00, the General Fund revenue forecast was revised \$95 million higher and the cash fund revenue forecast increased by \$40 million. These upward revisions in revenue offset the increase in the TABOR limit from stronger population growth and increased the amount of the TABOR surplus by over \$130 million in FY 1999-00.

General Fund Overview

Table 3 provides an overview of General Fund revenues and reserves through FY 2004-05. The General Fund overview presented in Table 3 assumes current-law capital construction transfers and includes any additional funds necessary to complete capital construction projects begun in FY 1999-00. (Subsequent tables will display the overview with proposed new capital spending prioritized by the Capital Development Committee and with proposed tax relief.)

In FY 1999-00, the fiscal year-end reserve is expected to be \$703.7 million, which is 14.0 percent of General Fund appropriations. Moreover, there will be \$503.3 million in monies in excess of the statutory reserve. These monies in excess of the statutory reserve are generally used for new capital projects and tax relief. In FY 2000-01, the excess General Fund reserve is expected to be \$512.4 million. The General Fund reserve in FY 2004-05 is forecast to be \$1,210.4 million, which is \$942.3 million above the required reserve. Thus, there will be \$942.3 million available for capital construction projects, tax cuts, and/or increased rebates and expenditures throughout the six-year horizon. It is important to note that the monies in excess of the statutory reserve are *one-time* monies. In other words, if a portion of the \$503.3 million in excess FY 1999-00 reserve is spent, there will no longer be the full \$942.3 million of excess reserve available for expenditures by FY 2004-05.

What has changed in the General Fund Overview since December?

There are two changes to the March 2000 General Fund overview as compared with December 1999: higher revenue growth and an increase in the Medicaid overexpenditure. The biggest change is the upward revision in the General Fund revenue forecast. This forecast is presented in **Table 4**. Because of strong growth in income taxes, we increased the General Fund revenue forecast by approximately \$95 million in FY 1999-00 and \$121 million in FY 2000-01.

Second, the Medicaid overexpenditure for FY 1998-99 was higher than anticipated in December 1999, \$19.2 million compared with \$11.0 million. The higher Medicaid overexpenditure expanded the General Fund appropriations base in FY 1998-99 and allows the six percent limit to be applied to the higher base. As a result, throughout the forecast period, the increased Medicaid overexpenditure causes General Fund appropriations to be \$54.7 million higher than otherwise would be the case. These higher appropriations will lower the FY 2004-05 fiscal year-end reserve by \$54.7 million.

What does the General Fund Overview look like with the proposed new capital projects?

Table 5 illustrates the General Fund overview with the Capital Development Committee (CDC) approved capital construction projects. The CDC approved list differs from Table 3 because it includes capital spending for new projects. With the CDC approved capital projects, the FY 2000-01 excess reserve is \$412.2 million and by FY 2004-05, the revenues in excess of the reserve are \$617.6 million.

How would the Governor's proposed tax relief of \$200 million affect the overview?

Table 6 presents the General Fund overview with approximately \$200 million of permanent tax relief and the CDC approved capital construction projects. The tax relief package includes an income tax rate reduction to 4.65 percent (approximately \$94 million in FY 2000-01) and a sales tax reduction to 2.85 percent (approximately \$97 million in FY 2000-01). In this scenario, the monies in excess of the reserve are forecast to be \$221 million in FY 2000-01 and will reach \$369 million in FY 2004-05.

Cash Fund Revenue Forecast

The OSPB March 2000 cash fund revenue forecast is shown in **Table 7**. Cash fund revenues — which are typically collected and earmarked for specific purposes — comprised 27.5 percent of total TABOR revenues in FY 1998-99. Between FY 1998-99 and FY 1999-00 total cash fund revenues are expected to rise 2.8 percent, and from FY 1998-99 through FY 2004-05 they are expected to grow at an average rate of 3.6 percent per year.

The March 2000 forecast increased the cash fund revenue forecast by \$40.4 million in FY 1999-00 and by \$53.2 million in FY 2004-05. This reflects in part an upward revision in transportation-related revenues due to higher-than-expected fuel tax receipts. Two other factors are incorporated into the cash fund forecast in the out-years.

- In 2000, the Colorado legislature passed and the Governor is anticipated to sign into law a 20 percent credit that will be applied against the unemployment insurance (UI) tax paid by businesses. The credit will be in effect in calendar years 2001 and 2002 if the UI Trust Fund balance meets specific criteria. Based on the current forecast, we expect that the credit will be applicable both years, and that the total reduction in UI tax revenues over the two years will be approximately \$62 million.
- The March 2000 forecast for higher education cash fund revenues is made assuming that both resident and nonresident tuition will be increased by the Denver-Boulder inflation rate each year *except* FY 2000-01. Figure setting action by the Joint Budget Committee allows resident tuition to increase 2.9 percent in FY 2000-01 (the Denver-Boulder inflation rate) and nonresident tuition to increase 3.5 percent. These tuition increases are incorporated in the forecast.