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TO: Members of the General Assembly

FROM: Nancy McCallin, Director and Julie Hart, Senior Economist

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SUBJECT: Financial Impacts of Tax Relief and Ballot Initiatives

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In response to numerous questions from legislators received by our office and the Governor's Legislative Liaison, I am providing you with the financial impacts of the recently enacted tax relief and ballot initiatives and referenda. First, the impact of tax relief measures is presented, followed by the financial impact of ballot initiatives and referenda.

Impact of the 1999 and 2000 Tax Relief Packages:

The following bullet points summarize the key impacts of the 1999 and 2000 tax relief packages. At the end of this memorandum, a table is provided that details the total tax relief package (Table 1) as well as the relative benefit to taxpayers (Table 2).

- **Colorado taxes have been permanently reduced by roughly one-half billion dollars on an annual basis.** The combined effect of tax relief measures passed in both the 1999 and 2000 legislative sessions is $550 million in FY 2001-02, the first full-year that all measures will be in effect.

- **Temporary tax relief** of $372 million has been enacted during the last two sessions. This figure does not include the sales tax refund, estimated at $689 million, that individuals will receive in FY 2001-02. Examples of temporary tax relief include the earned income tax credit, the child care tax credit for low- and middle-income families, lower vehicle registration fees, a tax credit for health care costs not paid by employers for low-income families, and a credit for personal property taxes paid by businesses.

- **An average individual will save $494 in taxes each year, while an average family will save $988.**

- With the tax relief passed in 1999 and 2000, **individuals in the lower income brackets will receive relatively more tax relief than they paid into the TABOR surplus, whereas higher income taxpayers will receive less than they paid into the surplus**. For example, Table 2 shows that individuals earning less than $25,000 per year are paying 7.7 percent of the TABOR surplus, but will receive 19.6 percent of the tax relief. Meanwhile, those individuals earning more than $125,000 are paying 30.4 percent of the surplus, while receiving 16.0 percent of the benefit.

- Since the beginning of the Owens administration, the state's income tax rate has been lowered from 5.0 percent to 4.63 percent, accounting for 72 percent of the permanent tax relief. On January 1, 2001, the sales tax rate will be lowered to 2.9 percent from 3.0 percent. The lower sales tax rate accounts for 14 percent of the permanent tax relief. There are roughly 2.5 million individuals and businesses who pay income tax in Colorado and virtually all families and businesses pay the sales tax. Thus, these lower tax rates provide broad-based tax relief for Coloradans.

Impacts of the Ballot Initiatives

This section of the memorandum discusses the ballot initiatives that have a noticeable impact on the state's budget or the TABOR refund. In total, there are two citizen initiatives and three legislatively referred measures that are on the ballot in November that would have an impact on the budget. If all of these initiatives pass, $442 million would be exempted from the TABOR surplus in the first year of enactment and $50 million of the TABOR refund would be diverted.

Citizens Initiatives

There are two citizen initiatives that have financial impacts:

C-1. Amendment 21 — Tax Cut 2000

This measure is a constitutional amendment that, beginning in 2001, reduces by $25 each tax in each tax bill for the following:

- utility customer and occupation tax and franchise charges;
- vehicle sales, use, and ownership taxes;
- yearly income tax;
- property taxes;
- income and property taxes equal to yearly revenue from sales and use taxes on food and drink; and
- income tax equal to yearly revenue from estate taxes.

Fiscal Impact. The tax cut of $25 increases by $25 each year. Thus, in the second year, the tax cut is $50 for each tax bill. The tax cut will have an impact on both state and local revenue, though we have only estimated the state impact. Based on current projections, the impacts include:

- The initiative states that the tax cuts cannot reduce the amount of the TABOR surplus. In other words, the state will need to provide the TABOR refund to taxpayers and in addition would provide refunds under this formula. We estimate that the amount of the refunds under this initiative will be $672.3 million over a three-year period. This is in addition to $3,026.1 million of TABOR refunds during the period. We estimate that the average refund under Amendment 21 would be $89 in FY 2001-02 and $130 in FY 2002-03. This compares with the estimated TABOR refunds of $263 and $249 in each year, respectively.

- This measure would eliminate the Senate Bill 97-1 transfer to the Highway Users' Tax Fund beginning in FY 2001-02. Senate Bill 97-1 monies are used as the local match for the repayment of TRANS bonds. Because of the elimination of this revenue source, it is likely that many of the TRANS projects would be stopped.

- Beginning in FY 2001-02, there would be no excess General Fund reserve; therefore, there would be no money available for capital construction or the K-12 capital construction transfer per the settlement agreement with the court.

- General Fund appropriations growth would be lower than the six percent that would occur under current law beginning in FY 2001-02. The table below outlines available appropriations growth under this initiative. As a result, General Fund appropriations would be $750.1 million lower during the five years than under current law and General Fund programs would likely not be able to grow with inflation and population growth.

General Fund Appropriations Growth with Initiative #205

Fiscal Year	Appropriations Growth
2002-03	5.11%
2003-04	4.57%
2004-05	4.47%
2005-06	6.00%

C-2. Amendment 23 — Providing Additional Funding for K-12

The measure specifies mandatory growth rates of one percent above inflation for state expenditures under the Public School Finance Act and diverts state income tax revenues raised from one third of one percentage point of the income tax rate to the newly created State Education Fund. The measure excludes these income tax monies from the TABOR limitation and excludes the expenditures of the newly created State Education Fund from the six percent appropriations limit.

Fiscal Impact. Since the measure exempts a portion of the state income tax from the TABOR limitation, the bill would reduce the amount of monies collected under TABOR by roughly $320 million. The manner of implementation for this measure would have a significant budgetary impact. First, since the state would need to reserve $320 million for the State Education Fund, the money transferred to the fund would lower the amount of excess General Fund revenue available for capital construction and would lower the Senate Bill 97-1 transfer to the Highway Users' Tax Fund in FY 2000-01 by $177.3 million. Second, the measure states the K-12 total program funding must grow by five percent per year. This could potentially squeeze out funding for other programs within the state's six percent appropriations growth limit. The impacts would magnify if the state were in an economic recession or if there was not a TABOR surplus.

Legislative Referenda and Concurrent Resolutions

There are three Legislative Initiatives that have financial impacts:

L-1. Senate Bill 00-4: Performance Grant Program for Schools

The bill requests voter approval for the state to retain up to $50 million per year in surplus TABOR revenues for five years (FY 1999-00 through FY 2003-04) to provide grants to K-12 school districts for programs that improve academic performance. Grants would be made to school districts, including charter schools, by the State Board of Education using criteria set forth in the bill.

Fiscal Impact. The $50 million in grants would not be included in either state or local government TABOR calculations and would not be subject to the six percent limitation on state general fund appropriations. Effectively, this would not affect the state's expenditures under the six percent limit, but would lower an average taxpayer's TABOR refund by $20 per year.

L-2. Senate Bill 00-84: Multistate Lottery Games

This bill requests voter authorization for the Colorado Lottery Commission to investigate, enter into, and participate in multi-state agreements and to operate and regulate multi-state lotteries — so called Powerball.

Fiscal Impact. This initiative devotes money raised by the Powerball to the School Construction and Renovation Fund, and exempts the money from any restrictions on spending, revenues, and appropriations, including the TABOR limitations. This money would be used for capital construction at kindergarten through twelfth grade public schools located in certain disadvantaged school districts. It is estimated that the lottery games will provide $11.2 million to the fund in FY 2001-02.

L-3. Referred Constitutional Measure Referendum A — Homestead Exemption for Senior Citizens

Passage of this initiative would require that 50 percent of the first $200,000 of actual value of residential property would be exempt from property taxation for property tax years commencing on or after January 1, 2002, for property owners who meet the following criteria:

- the owner is 65 years of age or older, and has owned and occupied the residence as his or her primary residence for ten years; or

- the property is the primary residence of the spouse or surviving spouse of a qualified owner-occupier.

Fiscal Impact. The state would compensate local governments for the amount of property tax revenues lost as a result of the property tax homestead exemption from the state's TABOR surplus. This would reduce the TABOR refund by $92.4 million in FY 2002-03, or an average of $36 per individual taxpayer. In addition, because of the timing difference in when the TABOR liability occurs, there would be a $92.4 million reduction in money available for new state capital projects.