



Colorado
Legislative
Council
Staff

ISSUE BRIEF

Number 98-4

A Legislative Council Publication

January 30, 1998

The Big Picture - An Overview of State Finances

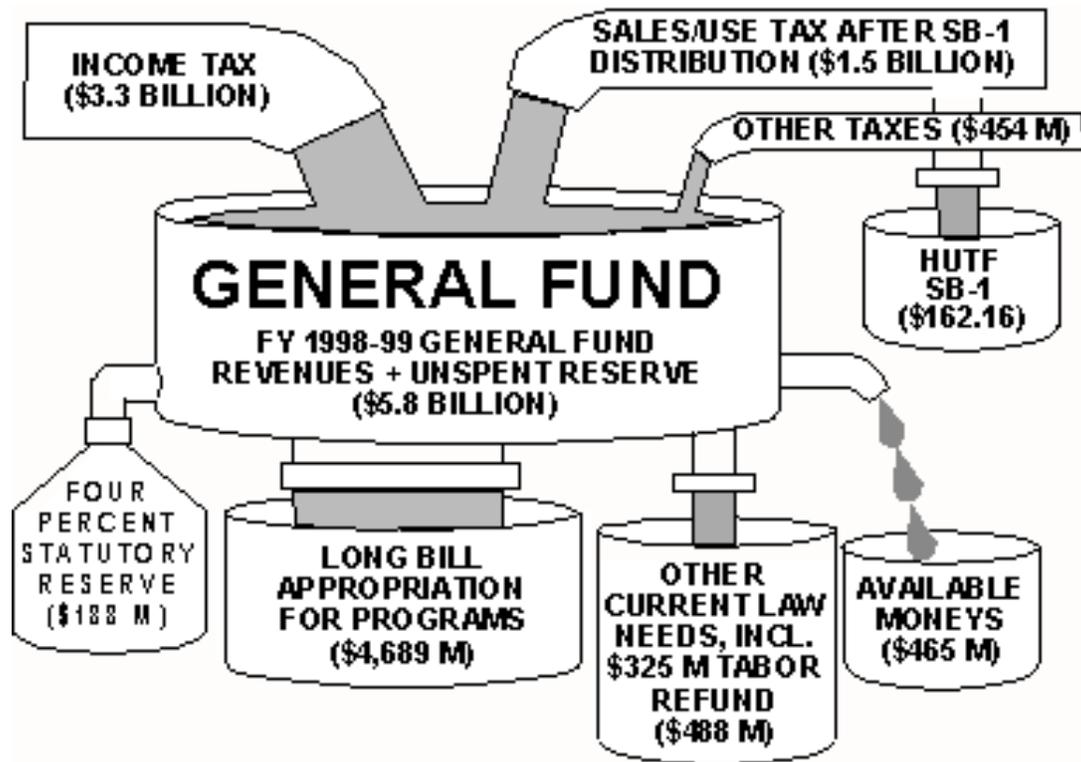
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Colorado is expected to collect nearly \$7.2 billion during the fiscal year ending June 30, 1998. This money is appropriated for ongoing state obligations like education, transportation, human services, and taxpayer refunds, as well as capital construction needs. This *Issue Brief* overviews the most recent forecast of state revenues and expenditures and describes how these moneys are governed by state law.

The General Fund is the Source for Most Revenues and Expenditures

Accounting for nearly \$5.8 billion in FY 1998-99, General Fund revenue dominates state finances. Graph 1 illustrates sources and uses of General Fund moneys.

Graph 1: FY 1998-99 General Fund Revenue



The State Functions Within Certain Fiscal Constraints

Arguably, state finances are governed most by the constitutional requirement for a balanced budget. However, state finances are also directly governed by the following other provisions:

- the Taxpayer's Bill of Rights (TABOR), which effectively restricts state *revenues*;
- Arveschoug-Bird, which limits state *General Fund appropriations*; and
- two separate reserve requirements, one statutory and one constitutional.

TABOR Effectively Limits Revenues. Adopted by Colorado voters as Amendment No. 1 in 1992, TABOR imposes a constitutional limit on government spending. However, TABOR's broad definition of "spending" is effectively equal to revenue, including state tax collections and fee revenue. Federal moneys are not included in TABOR's definition of spending. So, with a few exceptions, TABOR effectively limits how much total revenue the state can collect.

Growth in state revenues is limited to the Denver-Boulder inflation rate plus the percentage change in population from the prior year. Thus, the 5.5 percent limit on revenue growth for FY 1997-98 is based on an inflation rate of 3.5 percent and population growth of 2.0 percent for 1996. Any revenues in excess of this limit must be refunded in the following year, unless voters agree to let the state keep the excess.

In FY 1996-97, the state collected \$139 million more than it was allowed under TABOR. These excess revenues will be returned to taxpayers in FY 1997-98. We estimate that state revenues will continue to exceed the TABOR limit for the foreseeable future. FY 1997-98 state revenues, for

example, are expected to be nearly \$325 million more than the TABOR revenue limit of \$6,867 million.

Arveschoug-Bird is a Statutory Limit on General Fund Appropriations. Unlike TABOR, which limits all state *revenues*, Arveschoug-Bird applies only to General Fund *appropriations*. Arveschoug-Bird limits state General Fund appropriations to an annual increase of six percent over the prior year or, in total, five percent of state personal income. In FY 1998-99, Arveschoug-Bird allows the General Assembly to increase General Fund appropriations by \$265 million over the prior year, or up to a total of \$4,689 million.

Also in contrast to TABOR, Arveschoug-Bird allows broader exemptions for items considered outside of the General Assembly's control, such as court orders, federal mandates, and Medicaid overexpenditures. In addition, certain transfers are not considered appropriations and are not subject to the limit. The largest such transfers are for capital construction and controlled maintenance, totaling up to \$230 million in FY 1997-98.

The State Must Keep Some Money in Reserve. Colorado operates under two separate reserve requirements which obligate the state to set aside moneys. First, the *statutory reserve* requires that four percent of General Fund appropriations be set aside for revenue shortfalls. In FY 1998-99, the statutory reserve will be roughly \$188 million, however, there will be roughly \$653 million on hand to meet this obligation. The remaining \$465 million in reserve funds are available as one-time moneys for other purposes, including a transfer of up to \$41 million for controlled maintenance of state facilities.

Second, the *constitutional reserve requirement contained in TABOR* effectively obligates the state to withhold three percent of its annual revenues. This constitutional reserve can only be used for declared emergencies other than those caused by economic conditions, revenue shortfalls, or salary or benefit increases. Currently, the principal balance in the state's Controlled Maintenance Trust Fund (CMTF) is designated as the constitutional reserve. In FY 1998-99, the constitutional reserve requirement is expected to be \$217 million, while the CMTF may have as much as \$339 million earmarked for this requirement.

The Limits are Applied Differently. TABOR applies *retroactively* after the end of the fiscal year when all revenues have been counted. Arveschoug-Bird and the reserve requirements, on the other hand, apply *proactively*, when the General Assembly is budgeting for the upcoming year. Thus, the General Assembly must comply with the Arveschoug-Bird appropriations limit and meet the reserve requirements for the upcoming year, while also refunding excess TABOR revenue from a previous year.

Money is Transferred Out of the General Fund for Special Purposes

Each year, the General Assembly transfers moneys from the General Fund to various other funds

for special purposes. Usually, these other purposes are capital- or infrastructure-related. The largest such transfer in FY 1997-98 was \$182 million for capital and prison construction. The statutes allow the General Assembly to transfer an additional \$50 million to the CMTF in FY 1997-98 during the 1998 session. In the past, General Fund transfers have also been used for highway construction and technology grants. Given the forecast for state revenues, the General Assembly may transfer an estimated \$1,364 million between now and FY 2002-03 and still maintain the four percent statutory reserve and six percent annual General Fund appropriations growth. However, using these one-time moneys for some purposes may create a future ongoing need for state operating funds, which are limited by Arveschoug-Bird.

Conclusion

Colorado's fiscal policy functions within four specific constraints -- TABOR, Arveschoug-Bird, and two separate reserve requirements. TABOR limits the total amount of money that the state may collect in taxes and fee revenue each year. In contrast, Arveschoug-Bird makes no reference to revenues, but directly limits the General Fund moneys available to operate state programs. Some of the General Fund revenues which cannot be appropriated under Arveschoug-Bird are kept in reserve, as required by state law, while others are available as one-time moneys for specific purposes. However, using one-time moneys for capital construction projects may create a future ongoing need for General Fund operating moneys.

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This page last updated on 08/08/2005 14:33:59