Colorado's State Government Revenue Structure, Spending Limits, and General Fund Expenditures

The following document provides a broad overview of Colorado's state government revenue structure, spending limits, and constitutional and statutory provisions that affect General Fund expenditures.

Colorado's Revenue Structure

In 2007, Coloradans paid about 32 percent of their income to the federal, state, and local governments in taxes. Approximately 71 percent of these taxes were paid to the federal government, primarily in the form of income and social security taxes. The remaining 29 percent of taxes paid were split almost evenly between state and local governments (see Figure 1). Colorado is one of only a handful of states in which the state collects less in taxes than local governments.

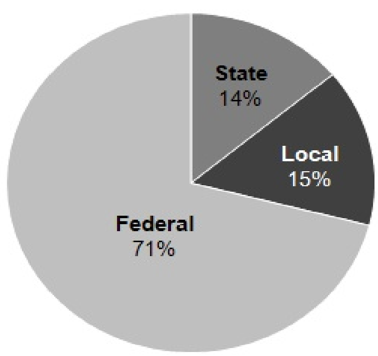


Figure 1
Where Do Our Taxes Go?

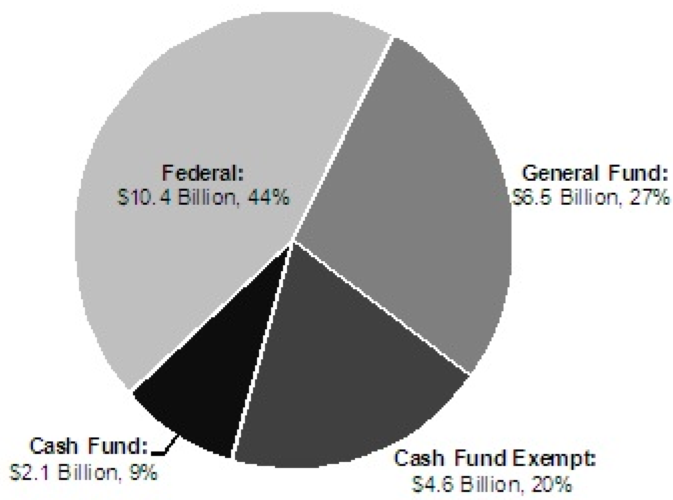
2007: $64.0 Billion

Colorado state government receives the majority of its revenue from the federal government, state taxes, and state fees. The state also receives some money from fines and penalties. The General Fund, where general-purpose tax revenue is deposited, is used for the state's core programs, such as education, human services, corrections, and health care. Cash funds, where most fee-revenue and program-specific taxes are deposited, are earmarked for specific programs.

General Fund revenue is primarily – about 95 percent – made up of income and state sales taxes. The General Fund also receives revenue from excise taxes on cigarettes, taxes, and liquor as well as from parimutuel taxes, insurance premium taxes, investment income, and a variety of miscellaneous revenue sources, such as fines and penalties.

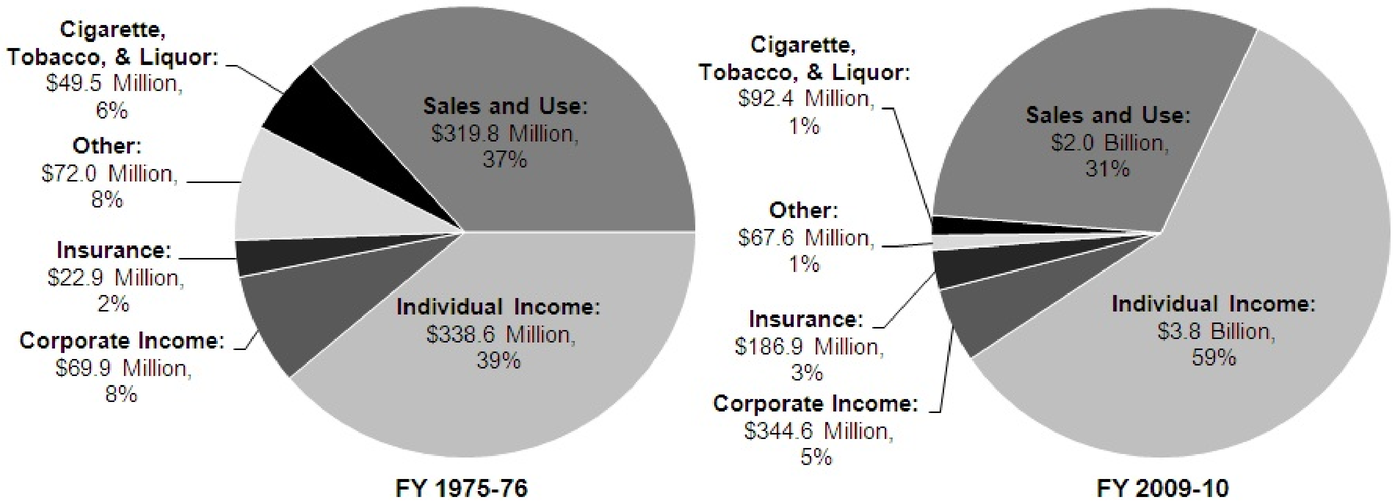
In FY 2009-10, 27 percent, or $6.5 billion, of state revenue was received by the General Fund (see Figure 2). Cash fund revenue, both exempt (totaling $4.6 billion) and nonexempt (totaling $2.1 billion), accounted for roughly 29 percent of state revenue, and federal funds (totaling $10.4 billion) comprised the remaining 44 percent. Nonexempt cash fund revenue is subject to TABOR, while exempt cash fund revenue is not.

Figure 2
State Revenue Sources By Fund Type, FY 2009-10



General Fund revenue sources have changed significantly since the 1970s, as illustrated in Figure 3. The state has become more reliant on individual income taxes and less reliant on sales and use and corporate income taxes since FY 1975-76. In FY 2009-10, 59 percent of the state's General Fund came from individual income taxes, compared with 39 percent in FY 1975-76. In contrast, sales and use taxes comprised 31 percent of General Fund revenue in FY 2009-10, versus 37 percent in FY 1975-76. The share of General Fund revenue attributable to corporate income taxes has declined slightly from 8 percent in FY 1975-76 to 5 percent in FY 2009-10. All other General Fund revenue sources comprised 5 percent of the total in FY 2009-10, dropping from 17 percent in FY 1975-76.

Figure 3
Comparison of General Fund Revenue, FY 1975-76 and FY 2009-10

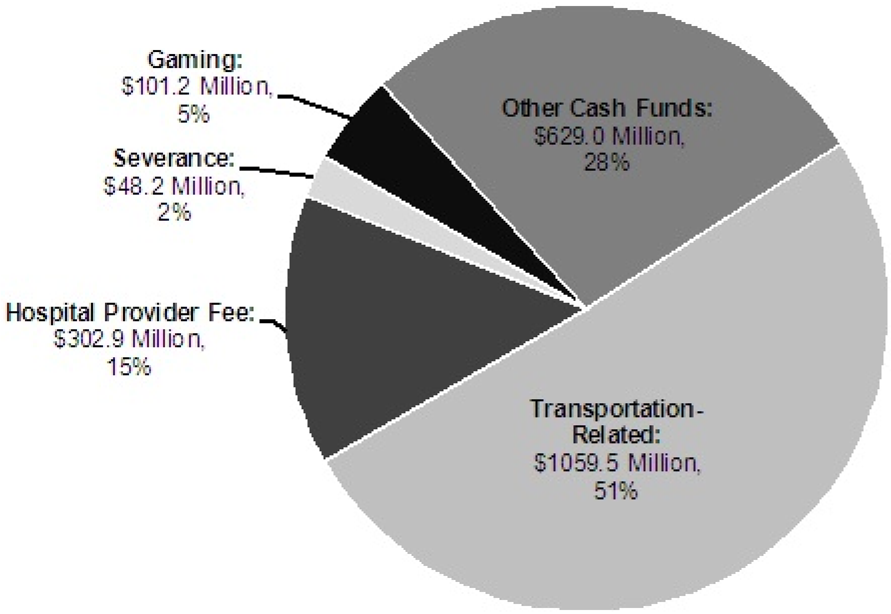


Several reasons account for the shift in General Fund revenue sources. First, many sales tax exemptions were enacted in the late 1970s and early 1980s when the state had significant budget surpluses. When the large surpluses evaporated in the mid-1980s recession, the sales tax exemptions were not repealed. While the state also enacted many income tax reductions in the late 1970s and early 1980s, many of these reductions were repealed to help the state's budget during the mid-1980s recession.

A second reason for the shift is that federal tax reform in 1986 significantly broadened the tax base upon which individual income taxes are levied. Since Colorado uses federal taxable income as its starting point for the calculation of Colorado's income tax base, the broadening of the federal tax base, which Colorado adopted for the most part along with its own tax law changes in 1987, increased the state's reliance on individual income taxes. Conversely, the state's sales tax base has become smaller over time. Consumer spending has shifted from goods to services, and many services are not subject to sales taxes. In addition, there is an increasing amount of e-commerce transactions – a portion of which have sales and use taxes that are due that go uncollected. Finally, Coloradans have experienced steady increases in income over time, which is partially responsible for the increasing share of income tax revenue to the state.

Cash fund revenue is earmarked for a variety of specific purposes. Figure 4 displays the relative importance of cash fund revenue sources subject to TABOR (nonexempt) in FY 2009-10. The largest cash funds were earmarked for transportation (51%), medical assistance programs (15%), and for gaming impacts and economic development programs supported by gaming revenue (5%). The transportation funds primarily receive money from fuel taxes and motor vehicle registration fees. The hospital provider fee started in FY 2009-10, and expands medical assistance programs for low-income individuals and households. Severance taxes are primarily imposed on natural gas and oil producers, and gaming revenue comes from taxes on casino proceeds from gaming.

Figure 4
Major Cash Fund Revenue Sources Subject to TABOR, FY 2009-10
Total Revenue: $2,088.6 Million



Cash fund exempt revenue consists of revenue that is exempt from TABOR when it is received by the state. The largest sources of cash fund exempt revenue in FY 2009-10 were received by entities designated as enterprises, such as public universities and colleges, the state lottery, the Division of Wildlife, and the Unemployment Insurance Section in the Department of Labor and Employment. Other relatively large sources of exempt revenue the state receives include the Amendment 35 cigarette and tobacco tax passed by voters in 2005, the revenue the state receives from tobacco companies as a result of the Master Settlement Agreement, and federal mineral leasing revenue that the state receives when individuals or companies lease federal lands for mineral production.

Spending Limit: The TABOR Amendment[1]

Voted into the state constitution by the people in 1992, the Taxpayer's Bill of Rights (TABOR) contains a number of substantive provisions that apply to districts,[2] including: limitations on government spending of certain revenue, voter approval for certain types of tax increases, and voter approval for revenue changes. Each of these provisions are discussed below in the context of *state* spending. This document does not address TABOR's application to local governments.

[1]Article X, Section 20, Colorado Constitution.

[2]Districts include state and local governments, excluding enterprises.

TABOR spending limit. TABOR limits the amount of revenue that the state may spend each fiscal year. Revenue in excess of the TABOR limit, commonly referred to as the "TABOR surplus," must be refunded to taxpayers, unless voters approve a revenue change as an offset. The formula for determining the state TABOR limit can be summarized as follows:

State TABOR Limit = (Prior Year's TABOR Revenue) × (1 + Inflation + Population Growth) + (Voter-Approved Revenue Changes)

Inflation is measured by the Denver-Boulder-Greeley Consumer Price Index inflation rate published by the U.S. Bureau of Labor Statistics. Population growth is based upon estimates provided by the U.S. Census Bureau, which are subject to updates requiring periodic adjustments.

Voter approval for revenue changes. TABOR requires voter approval to retain revenue above the TABOR limit. An example of a statewide voter-approved revenue change is Referendum C, which is discussed below.

Voter approval for tax increases. TABOR also requires voter approval for any new tax, tax rate increase, mill levy increase, an increase in a property assessment valuation ratio, extension of an expiring tax, or a tax policy change causing a net tax revenue gain. Income tax rate increases or a new state definition of taxable income may not take effect until the next tax year. TABOR also prohibits certain types of taxes and provides that income tax law changes shall require all taxable net income to be taxed at one rate.

An example of a voter-approved tax increase is Amendment 35, which passed in November of 2004. Amendment 35 amended the constitution to increase taxes on cigarettes and other tobacco products and targeted the new revenue to fund health care and tobacco education and cessation programs. No voter approval is needed to decrease a tax imposed by statute.

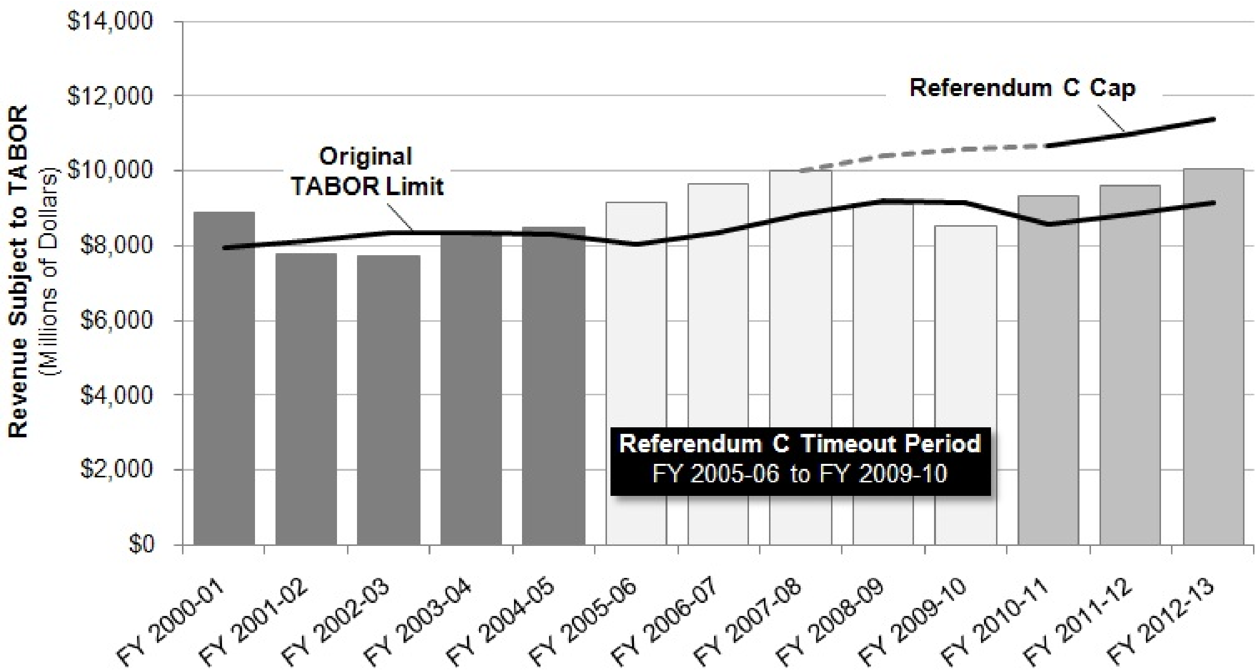
Spending Limit: Referendum C[3]

Referendum C, passed by voters in 2005, is a voter-approved revenue change that allowed the state to retain and spend all excess TABOR revenue collected above the TABOR limit for five years, from FY 2005-06 through FY 2009-10. This period of time is commonly referred to as the "five-year timeout period." After the timeout period, Referendum C allows the state to retain and spend all excess revenue up to a "cap", which is equal to the highest total state revenue for a fiscal year during the timeout period adjusted by inflation plus population growth for each subsequent year. Revenue collected above the cap will be refunded to taxpayers via the TABOR refund mechanisms, which are discussed later in this document. FY 2007-08 will be the year with the highest revenue during the timeout period from which the cap will grow by inflation plus population growth.

Figure 5 shows actual and forecast revenue subject to TABOR and the TABOR limit from FY 2000-01 through FY 2012-13 based on the September 2010 Legislative Council Staff forecast. Additionally, the dotted line shows the projected Referendum C cap, growing from FY 2007-08 revenue. The line is dotted until FY 2010-11 because the Referendum C cap does not come into effect until then.

[3]Section 24-77-103.6, C.R.S.

Figure 5
Revenue Subject to TABOR and the TABOR Limit



Source: Office of the State Controller.
*Legislative Council Staff projections based on the September 2010 forecast.

The state retained a total of $3.6 billion as a result of Referendum C. The way this money is required to be spent is described later in this document.

Other Issues Related to Spending Limits

What is the TABOR Ratchet-Down Effect? Prior to Referendum C, if TABOR revenue was less than the TABOR limit, the following year's limit was reduced to the level of reduced revenue plus inflation and population growth. The term "ratchet-down" has been used to describe the lowering of the limit. The ratchet-down effect occurred in FY 2001-02 and FY 2002-03 as a result of depressed revenues during the economic recession. In effect, Referendum C kept the state from ratcheting-down during the recession which began December 2007 because the Referendum C cap will be calculated based on FY 2007-08 pre-recession revenue levels. Referendum C effectively eliminated the possibility of ratcheting-down because the cap grows by inflation plus population growth over the prior year's cap regardless of whether revenue subject to TABOR is above or below the cap.

What Revenue is Subject to TABOR and Referendum C? The "TABOR base" is a term commonly used to describe revenue subject to TABOR spending limits. The TABOR base, which is used to calculate the following year's TABOR limit, is equal to the lesser of the TABOR limit or the amount of TABOR revenue collected during the prior fiscal year. Not all revenue is subject to TABOR spending limits. The TABOR limit *excludes* federal funds, gifts, employee pension contributions and fund earnings, damage awards, and property sales. Therefore, revenue from these sources is not included in the TABOR base. Additionally, enterprises are not subject to TABOR and are therefore not included in the TABOR base.

What is an Enterprise?

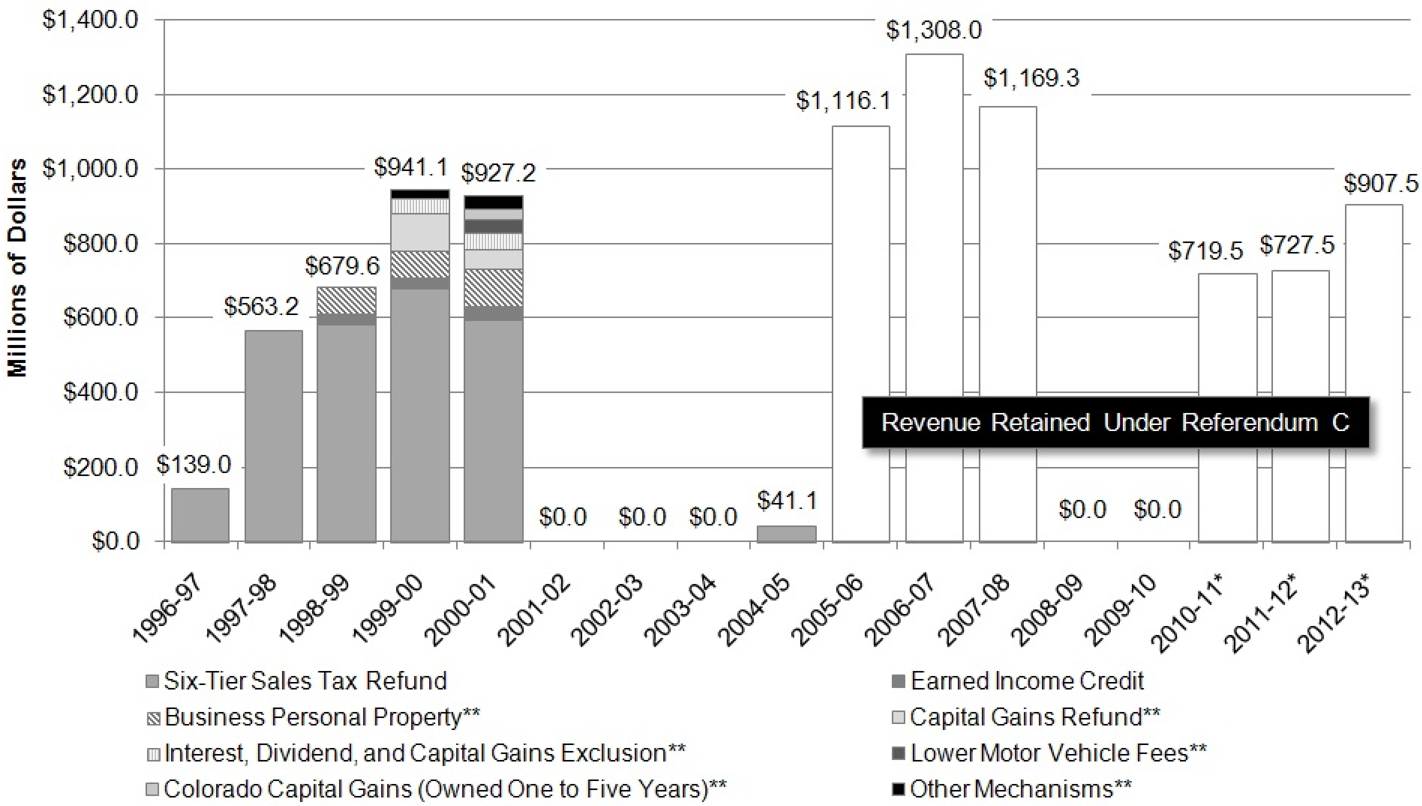
Enterprises, which represented the largest share of TABOR-exempt revenue in FY 2008-09, are self-supporting, government-owned businesses that receive revenue (usually from fees) in return for the provision of goods or services, and have the authority to issue revenue bonds. An enterprise must be designated so by the General Assembly, may only receive up to ten percent of its annual revenue from state and local government sources, and must otherwise be financially independent. Current enterprises include higher education auxiliary facilities, the State Lottery, College Assist and CollegeInvest, correctional industries, and the state nursing home system. More recently, the Unemployment Insurance Program, the State Fair Authority, the Student Obligation Bond Authority, the Division of Wildlife, and the Colorado Tolling Enterprise were granted enterprise status.

Changes in Enterprise Status. The TABOR base must be adjusted when a program's enterprise status changes. When a program becomes an enterprise, its revenue is no longer counted as TABOR revenue and the TABOR limit is reduced by that amount. Similarly, when a program loses enterprise status, its revenue is subject to the TABOR limit and the TABOR limit is adjusted upward accordingly.

How is the TABOR Surplus Refunded? TABOR requires that the state refund any excess revenue collected over the limit to taxpayers within one year unless voters approve a revenue change that allows the state to keep all or part of the TABOR surplus. The General Assembly may statutorily determine how this "surplus" revenue is refunded. Figure 6 shows TABOR surplus refunds by mechanism from the first surplus year through the forecast period of FY 2010-11 through FY 2012-13. During the Referendum C five-year timeout period, the state was allowed to retain all surplus revenue, as is indicated in Figure 6 by the white bars. After the five-year timeout period, which ended in FY 2009-10, revenue collected above the Referendum C cap will be refunded to taxpayers via the TABOR refund mechanisms, which are detailed below.

To date, there have been six years when the state experienced a TABOR surplus. The mechanisms that refunded the surplus are shown in Figure 6. In total, Colorado taxpayers received nearly $3.3 billion in refunds from the six surplus years. From FY 2010-11 through at least FY 2013-14, state revenue forecasts do not anticipate any TABOR refunds as revenue is not expected to exceed the TABOR limit.

Figure 6
TABOR Surplus Refunds by Mechanism



Source: Colorado Department of Revenue.
*Legislative Council Staff projections based on the September 2010 forecast.
**These refund mechanisms have been repealed.
Note: Surplus is shown in the year revenue was collected; refunds occurred in the following year.

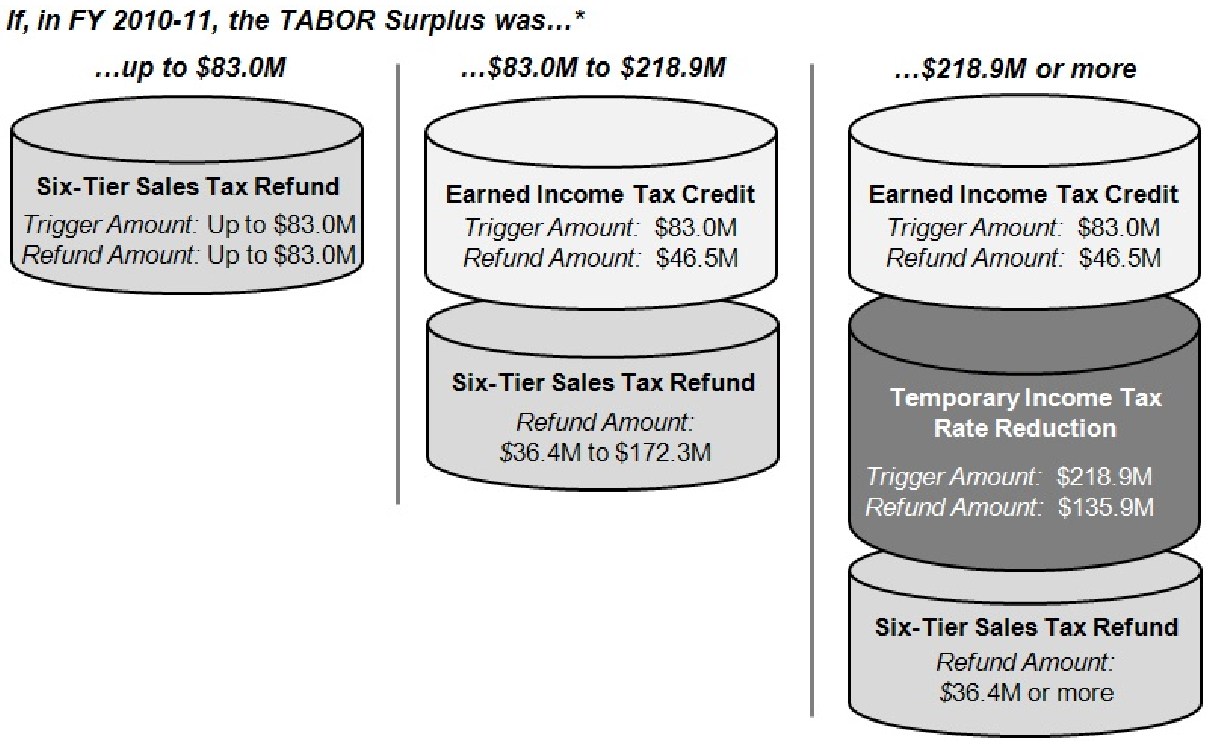
What are the TABOR Refund Mechanisms Under Current Law? Over the course of TABOR's history, there have been 21 different refund mechanisms. However, under current law there are three: the six-tier sales tax refund, the Earned Income Tax Credit (EITC) refund mechanism, and the temporary income tax rate reduction. Each of these mechanisms is described in greater detail below.

Six-tier sales tax refund. This refund mechanism allows individuals to receive a state sales tax refund based on six modified federal adjusted gross income tiers and the filing status of the taxpayer. The Department of Revenue sets the dollar amount of each tier and each tier's refund based on set percentages of the refund and number of taxpayers in each tier. The refund is distributed to the six tiers when the TABOR surplus is large enough to support at least a $15 refund for each Colorado taxpayer. For instance, in FY 2010-11, this threshold is an estimated $44.9 million. In the event of a surplus that is less than the $15 per taxpayer trigger, an equal refund would be provided to each taxpayer regardless of income.

In terms of prioritization, the six-tier sales tax refund mechanism can be viewed as both the first and the last refund mechanism. It may be the first and only refund triggered in a year when the surplus is not sufficient to trigger other mechanisms. This was the case in FY 2004-05. In years when the surplus is large enough to trigger other refund mechanisms, the six-tier sales tax refund mechanism refunds any surplus revenue remaining after the other refunds are fully funded.

Figure 7 shows how the TABOR surplus would be refunded under current law based on the size of the surplus. All dollar amounts are estimates for FY 2010-11 based on the September 2010 Legislative Council Staff forecast.

Figure 7
TABOR Refund Scenarios Under Current Law



Source: Dollar amounts are based on the September 2010 Legislative Council Staff forecast.
*This figure is for illustrative purposes. No TABOR surplus is projected for FY 2010-11.

Earned Income Tax Credit (EITC) refund mechanism. The Colorado EITC "piggybacks" off of the federal EITC, which provides a tax credit to individuals who work but do not earn high incomes. Qualifying Colorado taxpayers may receive up to 10 percent of the federal credit amount in TABOR surplus years. Only Colorado taxpayers who claim the federal credit may claim the state credit. For tax years 2009 and 2010, the federal American Recovery and Reinvestment Act (ARRA) expanded the EITC. To qualify for the EITC in these tax years, earned income and adjusted gross income for individuals must each be less than:

- $43,279 ($48,279 married filing jointly) with three or more qualifying children;
- $40,295 ($45,295 married filing jointly) with two qualifying children;
- $35,463 ($40,463 married filing jointly) with one qualifying child; and
- $13,440 ($18,440 married filing jointly) with no qualifying children.

The EITC refund mechanism is triggered when the TABOR surplus exceeds a threshold amount which is increased by a growth factor equal to Colorado personal income growth each year.

Temporary income tax rate reduction. This refund mechanism will first become available for TABOR surplus years starting in FY 2010-11. Under the refund mechanism, the state income tax rate would be temporarily reduced from the current rate of 4.63 percent to 4.50 percent. The rate reduction will occur in the tax year following the fiscal year in which there is a surplus. For example, if there were a surplus in FY 2010-11, the income tax rate would be temporarily reduced in tax year 2011.

The temporary income tax rate reduction is triggered when the state experiences a surplus equal to at least the EITC refund mechanism trigger plus the projected amount of the income tax rate reduction. As Figure 7 shows, this amount is projected to be $218.9 million for FY 2010-11 (a $135.9 million tax rate reduction plus the $83.0 million EITC threshold).

How Is Revenue Retained by Referendum C Spent? Retained Referendum C revenue (revenue above the allowable TABOR limit but below the Referendum C cap) is statutorily[4] required to be spent on the following:

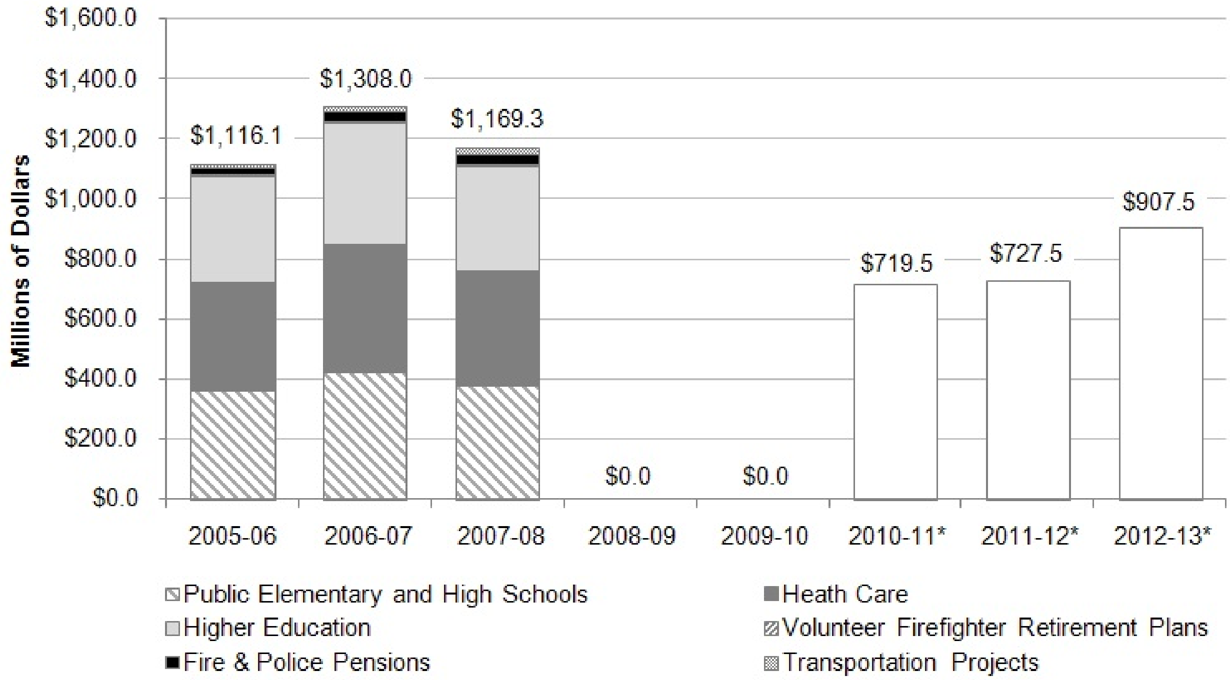
- health care;
- education, including public elementary and high schools, higher education, and capital construction projects;
- firefighter and police retirement plans; and
- strategic transportation projects.

State statute[5] allows that the first $55 million in FY 2005-06, $95 million in FY 2006-07, and $125 million each year thereafter to be spent on any of the areas listed above. Any remaining revenue is required to be distributed evenly in thirds to public elementary and high school education, higher education, and health care. The state retained a total of $3.6 billion as a result of Referendum C during the five-year timeout period. Figure 8 shows the distribution of the retained revenue. No revenue was retained during FY 2008-09 and FY 2009-10 due to depressed revenue resulting from the economic recession. Based on the September 2010 forecast, $719.5 million, $727.5 million, and $907.5 million will be retained in FY 2010-11, FY 2011-12, and FY 2012-13 respectively.

[4]Section 24-77-103.6, C.R.S.

[5]Section 24-77-104.5, C.R.S.

Figure 8
Spending of Revenue Retained by Referendum C



Source: Joint Budget Committee Staff.
*Legislative Council Staff projections based on the September 2010 forecast.

Framework for General Fund Expenditures

This section outlines constitutional and statutory provisions that affect General Fund expenditures. Topics covered include 1) the priority of expenditure from the General Fund; 2) the statutory General Fund reserve and statutes governing fiscal emergencies; 3) statutorily-required reserve increases and transfers to transportation and capital construction; and 4) the statutory limit on General Fund appropriations.

Priority of expenditure. Within constitutional, federal, and other legal constraints, the General Assembly is responsible for determining the expenditure of General Fund revenue. As shown in Figure 9, the majority of money available for expenditure in the General Fund is spent on the operating expenses of the state's core programs, which include education, health care, human services, prisons, and the court system. Historically, the General Assembly has, in some years, chosen to use General Fund revenue to fund transportation. Further, General Fund revenue is the only major state revenue source available to fund capital construction projects and expenditures required by the constitution as outlined below. Money must also be set aside to fund the statutorily-required reserve.

Constitutionally-required expenditures are prioritized over other expenditures. The state constitution includes the following requirements:

- The requirements of Amendment 23 for expenditures on preschool through 12th-grade education must be met.

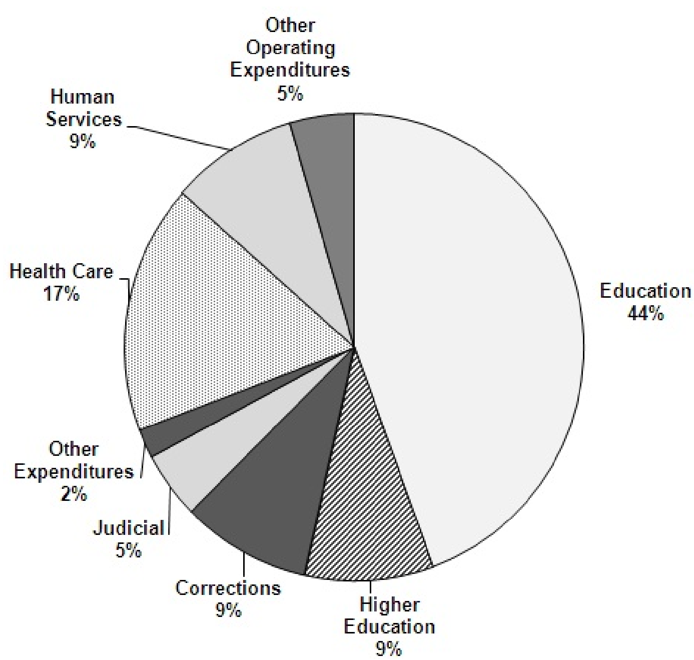
- Money must be set aside to refund money in excess of the TABOR limit. Based on the September 2010 Legislative Council Staff forecast, there is not expected to be a TABOR refund until some time after FY 2012-13, the last year of the forecast period.

- The Old Age Pension Fund must be fully funded based on constitutional requirements. This program, expected to receive $108 million in FY 2010-11, comprises the majority of the pie piece labeled "other expenditures" in Figure 9.

In addition, the constitution requires that the state reimburse local governments for the senior and veteran property tax exemptions. Under these exemptions, the first 50 percent of up to $200,000 of a residential property's market value is exempt from the property tax. The constitution allows the General Assembly to statutorily adjust the dollar amount of the market value exempted, but not the percentage of that dollar amount. This dollar amount was adjusted to zero for tax years 2003, 2004, 2005, 2009, 2010, and 2011.

Federal and legal mandates also require certain expenditures out of the General Fund. For example, the federal government requires certain health care services be funded if a state opts to participate in the Medicaid program.

Figure 9
FY 2010-11 General Fund Expenditures
$7.1 Billion Total



Source: Joint Budget Committee Staff

The statutory General Fund Reserve and fiscal emergencies. Section 24-75-201.1, C.R.S., requires a certain percent of General Fund fiscal year appropriations be set aside in a reserve in case revenue is insufficient to meet the state's General Fund obligations. This percent is equal to 4 percent in FY 2010-11 and FY 2011-12. Assuming the applicable conditions are met (see the discussion below about Senate Bill 09-228 transfers), this requirement will begin increasing by one-half of a percentage point in FY 2012-13 until it reaches 6.5 percent in FY 2016-17. Unless otherwise specified by special legislation, this statutory reserve must be replenished to the appropriate level each year as part of the budget process.

For FY 2008-09 and FY 2009-10, the General Assembly reduced the required level of the reserve to 2 percent to free up money for appropriations. It also gave the Governor authority to reduce it to zero in FY 2008-09 if revenue fell below the budgeted amount. However, money from the statutory reserve provided only a small portion of the amount needed to cover state expenditures. The legislature passed many other budget reduction measures and found additional revenue sources to balance the budget. The statutory reserve was also reduced during the recession in the first part of this decade and in the early 1990s.

The Governor's Authority in fiscal emergencies. When the revenue estimate from the Governor's Office of State Planning and Budgeting for the fiscal year indicates that General Fund expenditures will result in the use of one-half or more of the required General Fund reserve, the Governor must reduce General Fund expenditures so that the reserve will be at least one-half of the required amount. The Governor is required to use the procedures set forth in the statutes discussed below or any other lawful means to reduce expenditures. The Governor must notify the legislature of the plan to accomplish the reductions. The Governor may also consider recommendations for reducing General Fund expenditures at institutions of higher education submitted by the Colorado Commission on Higher Education, after consultation with their governing boards (Section 24-75-201.5 (2), C.R.S.).

Section 24-2-102 (4), C.R.S., grants the Governor authority to issue an executive order to suspend or discontinue the functions or services of any department, board, bureau, or agency of the state government for up to three months when there is not sufficient revenue available to carry on the functions of the state government. The Governor may extend the executive order if necessary.

Section 24-50-109.5, C.R.S., requires the Governor to reduce state personnel expenditures in the event of a fiscal emergency. A fiscal emergency is defined as a significant General Fund revenue shortfall or significant reductions in cash or federal funds received by the state, which threatens the orderly operation of state government and the health, safety, or welfare of the citizens of the state. The fiscal emergency must be declared by joint resolution adopted by the General Assembly and approved by the Governor.

Actions that may be undertaken to reduce state personnel expenditures include separations, voluntary and mandatory furloughs, suspension of salary and fringe benefit survey increases, suspension of performance awards or merit increases, job-sharing, hiring freezes, or forced reallocation of vacant positions. The head of each department and the governing board of each institution of higher education are required to order measures in accordance with the actions taken by the Governor to reduce the personnel expenditures of their departments.

TABOR emergency reserve. TABOR requires that at least 3 percent of state fiscal year spending, excluding bonded debt service, be kept in an emergency reserve. The TABOR emergency reserve cannot be used to offset revenue shortfalls; it can only be utilized to pay for non-fiscal emergencies, such as natural disasters. It must be repaid in the following fiscal year. The reserve is currently in several funds and includes non-financial assets.

Statutorily required General Fund transfers and reserve increases. Senate Bill 09-228 requires a five-year block of General Fund reserve increases and transfers from the General Fund to *transportation and capital construction* in the amounts and during the years shown in Table 1. The reserve increases and transfers are subject to certain conditions having been met, as described below. After the five-year period is complete, the General Fund statutory reserve will equal 6.5 percent of General Fund appropriations. In FY 2012-13, 1 percent of General Fund revenue is expected to be about $75 million.

Trigger on all Senate Bill 09-228 transfers. The five-year block of transfers is subject to a trigger on personal income growth. If Colorado personal income increases by less than 5 percent in 2012, the entire five-year block of transfers is postponed until the first fiscal year in which personal income increases by at least 5 percent during the calendar year in which the fiscal year originated. For example, if 2014 were the first year in which personal income increased by at least 5 percent, the five-year block of transfers would begin in FY 2014-15. Once the first transfer occurs, they continue to occur each year even if personal income growth were to later fall below 5 percent during the five-year period.

Based on the September 2010 Legislative Council Staff forecast, personal income is expected to increase at rates lower than 5 percent through at least 2012, the end of the forecast period.

Table 1
Required General Fund Transfers and Reserve Increases
Subject to Applicable Triggers

	Transportation	Capital Construction	Reserve
Fiscal Year	Percent of General Fund Revenue		Percent of General Fund Appropriations
2012-13*	2.0%	0.5%	0.5%
2013-14	2.0%	0.5%	0.5%
2014-15	2.0%	1.0%	0.5%
2015-16	2.0%	1.0%	0.5%
2016-17	2.0%	1.0%	0.5%

**The five-year block of transfers will begin in FY 2012-13 if personal income increases by at least 5 percent in 2012. If not, the entire block of transfers will be postponed until personal income increases by at least 5 percent.*

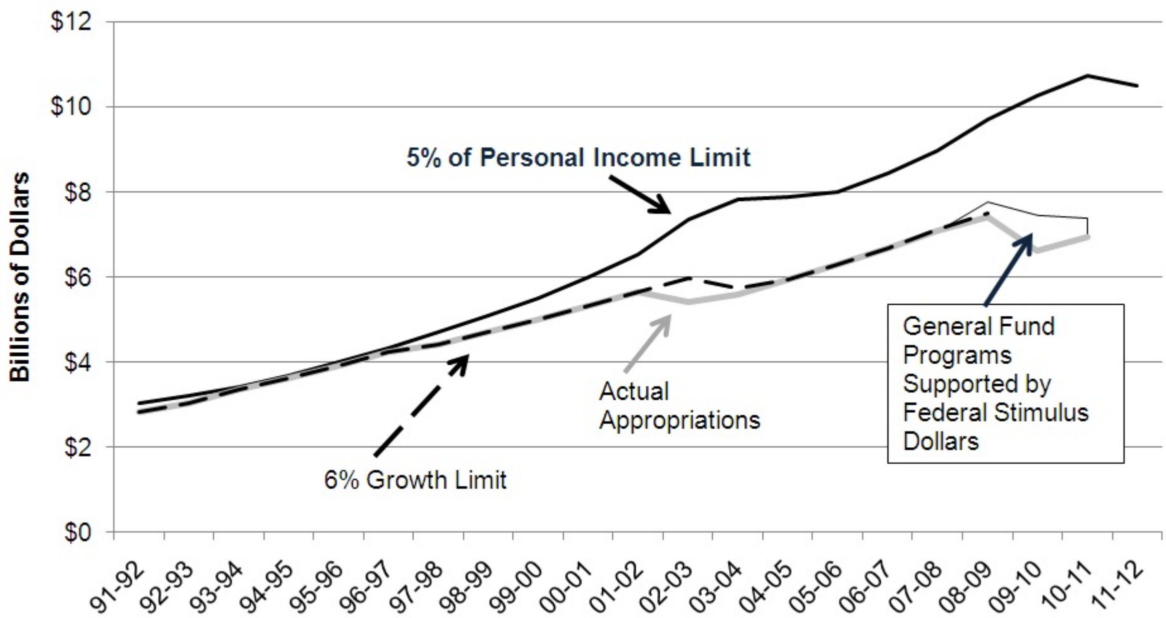
Each individual transportation and capital construction transfer is also subject to a trigger based on the size of future TABOR refunds. If a TABOR refund equal to between 1 percent and 3 percent of General Fund revenue is expected to occur, transfers will be reduced by 50 percent. If the TABOR refund is equal to more than 3 percent of General Fund revenue, the transfer will not occur.

Statutory limit on General Fund appropriations. The General Assembly enacted a statutory limit on General Fund operating appropriations in 1991. From FY 1991-92 through FY 2008-09, the limit was equal to the lesser of a 6 percent increase from the previous year's appropriation level or 5 percent of Colorado personal income. In 2009, the limit was amended to equal 5 percent of Colorado personal income. As shown in Figure 10, 5 percent of Colorado personal income will exceed $10 billion this year, substantially higher than the current $7.0 General Fund operating budget.

Figure 10 shows the historical 6 percent appropriations limit, 5 percent of personal income as it is calculated for the appropriations limit, and a history of actual appropriations since FY 1991-92. Federal stimulus funding used to support programs that otherwise would have been paid for with a General Fund appropriation is also showed for FYs 2008-09 through FY 2010-11.

During the first half of the 1990s, appropriations were only slightly lower than 5 percent of personal income. Actual appropriations began to fall behind, however, as Colorado personal income increased quickly during the boom years of the late 1990s. Income tax and sales tax revenue, which make up about 95 percent of General Fund revenue, are substantially more volatile than Colorado personal income. As a result, this gap was further widened during the budget shortfalls of the 2001 and 2008 recessions.

Figure 10
General Fund Appropriation Limit



Source: Joint Budget Committee and Legislative Council Staff, September 2010 Economic and Revenue Forecast.

Exemptions from the limit. Certain operating appropriations are exempt from the limit.

They include spending on:

- property tax reappraisals;
- new programs or increased service levels required by federal law or final state or federal court order;
- Medicaid overexpenditures;
- programs funded by voter-approved tax or fee increases; and
- appropriations for a state fiscal emergency.

Exclusions from the limit. General Fund capital transfers and funding obligations are excluded from the appropriations limit. Exclusions from the limit include:

- transfers to transportation or capital construction (statutory);
- the TABOR refund (constitutional);
- the expenditure of sales and use taxes on the Old Age Pension Program (constitutional);
- the senior and veteran property tax exemptions (constitutional);
- distributions of cigarette tax revenue to local governments (statutory);
- grants to the elderly to assist with property tax and heat/fuel expenses (statutory); and
- state contributions to the Fire and Police Pension Association (statutory).

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