Overview of the State Budget Situation

The economic downturn that began in 2001 caused state General Fund tax revenue to decline by over 16 percent over the next two years. The General Fund is the state account that pays for most of the state's core programs and services.[1] At the same time, the costs for many programs and services continued to increase. The legislature used several strategies to contend with declining revenue, including transferring money from special purpose funds to the General Fund, refinancing programs using sources of money other than the General Fund, using reserves, changing the way it accounted for expenditures, and cutting spending for certain programs, including capital construction for state buildings.

As the state's economy has begun to experience modest growth again, General Fund revenue has also increased. However, state limits on revenue and spending, coupled with an increasing caseload of individuals using state programs and mandated spending increases, continue to make balancing the state budget difficult. The economic downturn, increasing costs for programs and services, and limits on revenue have resulted in a "structural deficit" in the state budget; that is, state revenue available for appropriation is insufficient to pay for programs and services required under current law. Although several proposals have been debated to make permanent changes to alleviate the state's budget difficulties, none have been enacted thus far.

FACTORS CONTRIBUTING TO THE STATE'S BUDGET SITUATION

After strong growth during the late 1990s, General Fund revenue declined significantly beginning in FY 2001-02 due to the recession, the September 11th terrorist attacks, and other factors. At the same time that General Fund revenue decreased, the costs of programs and services increased. Spending for many of these programs is generally driven by federal or state mandates or by caseload, which tends to increase during economic downturns. In addition to these factors, the state's budget is constrained by constitutional and statutory provisions that both limit revenue and total spending. Meanwhile, Amendment 23 passed by voters in 2000, requires annual spending increases for K-12 education, the state's largest General Fund expenditure.

The Recession Resulted in a Reduction in State Revenue

During the state's robust economic expansion of the last half of the 1990s, revenue to the state General Fund grew at a consistently strong pace. However, the national economic downturn and stock market decline that began in 2001, worsened by the September 11th terrorist attacks, corporate accounting scandals, and local drought and wildfires, had a significant impact on Colorado. In fact, the decline in the state's economy was more severe than in much of the nation. Colorado's ranking for state employment growth went from 3rd highest in the country in 2000 to 2nd worst in 2002 and 4th worst in 2003.

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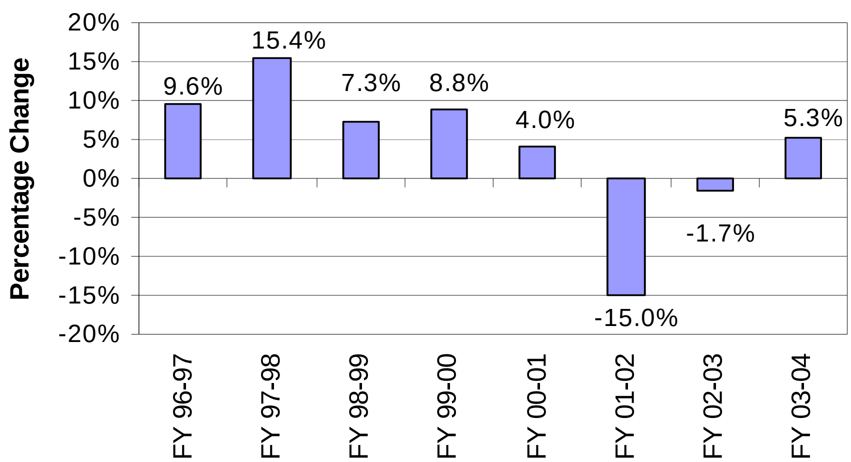
[1] Operations for some agencies are paid for with user fees and federal funds. For example, the Department of Transportation is primarily funded with state and federal gasoline taxes and with motor vehicle registration fees, while the Department of Labor and Employment is entirely funded with state and federal unemployment insurance taxes and other cash fund revenue.

Colorado was susceptible because of its concentration of especially hard-hit industries such as advanced-technology, telecommunications, and tourism. Manufacturing also experienced a substantial decline. The employment declines in these industries impacted other areas of the economy, such as the service sector. As a result, personal income, consumer spending, and business confidence were all impacted. Statewide personal income growth fell from 11.4 percent in 2000, to 5.8 percent in 2001, and to 0.6 percent in 2002. Statewide consumer spending declined for the first time ever in 2002. Colorado's employment declined by 43,000 jobs, or 1.9 percent, in 2002. Colorado lost another 32,000 jobs in 2003.

Colorado's economic downturn caused General Fund tax revenues to fall by nearly $1.1 billion over a two-year period. In FY 2001-02, General Fund revenues declined by $980.9 million due to the downturn, or 15.0 percent, while in FY 2002-03 revenues declined another $94.6 million, or 1.7 percent. Income and sales tax revenue, which makes up about 90 percent of General Fund revenue, are particularly influenced by weak economic conditions. For example, the stock market decline had a significant impact on income tax revenue from capital gains. Figure 1 illustrates the state's revenue growth during the state's economic expansion in the late 1990s and the subsequent decline that occurred.

Figure 1: General Fund Revenue Growth, FY 1996-97 through FY 2003-04

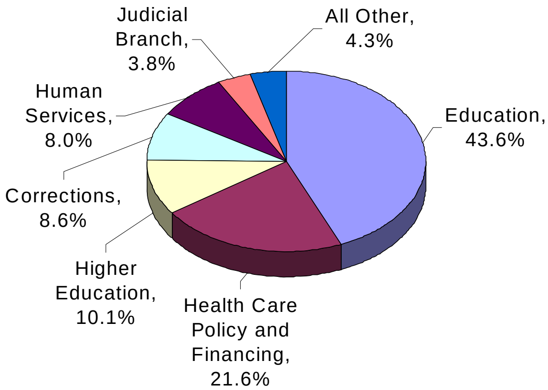


Costs of Programs and Services Continue to Increase

At the same time that General Fund revenue decreased, the costs of programs and services remained. And, in many cases, costs increase annually due to state population increases, inflationary costs to provide services, and spending mandates. Further, caseloads for many of the state's core programs and services, such as Medicaid, higher education, and the correctional system, tend to rise even faster during economic downturns.

Five state departments — Education, Health Care Policy and Financing, Higher Education, Corrections, and Human Services — and the Judicial Branch account for most of the state's General Fund expenditures. These institutions of state government are commonly referred to as the "big six." For the FY 2004-05 budget, the big six account for 95.7 percent of total General Fund appropriations. Figure 2 shows the percentage of General Fund appropriations for the big six for the current budget year.

Figure 2: General Fund Appropriations to State Departments, FY 2004-05 ($5.8 billion)



Appropriations for the big six are generally driven by federal or state mandates or by caseload. For example, annual funding increases for K-12 education, the largest General Fund expenditure for the state, is mandated by the state constitution and is influenced by the number of pupils in the state. Funding levels for the Department of Health Care Policy and Financing is primarily influenced by the caseload of the Medicaid program, an entitlement program governed by both federal and state laws. Figure 3 provides information on the primary factors impacting funding levels for each of the big six. These factors are in addition to ongoing cost increases due to inflation.

Figure 3: Primary Factors Contributing to Funding Levels for the Big Six

Education	• The number of pupils. • The increase in per pupil funding: The state constitution requires increases for basic school funding and special purpose programs of at least the rate of inflation plus one percentage point through FY 2010-11, and by the rate of inflation thereafter. • The minimum increase in General Fund appropriations: The constitution requires the school finance General Fund appropriation for K-12 education to increase by at least 5 percent through FY 2010-11, unless Colorado personal income grows by less than 4.5 percent. • The level of school district property taxes.
Health Care Policy and Financing	• The requirements of federal law: Federal law mandates that the state provide certain health care services to eligible individuals under the Medicaid program. The state must match federal funds for the program on a one-to-one basis. • Caseload size, utilization of services, and the cost of medical services, which typically increases at a higher rate than inflation on all goods and services.
Higher Education	• Enrollment in the state's higher education institutions.
Corrections	• The caseload of the state's correctional system and state sentencing and parole laws.
Human Services	• The caseload levels of eligible individuals receiving services.
Judicial Branch	• The caseload of the state's court system, including county, district, and water courts; the Court of Appeals; and the Supreme Court. • The caseload of the state's probation system, which is a sentencing alternative to the Department of Corrections and the Division of Youth Corrections.

Source: Legislative Council Staff and Joint Budget Committee

The State Constitution Controls Some Revenue and Spending

Compounding the budget difficulties brought on by the decline in revenue, the state's budget is constrained by three important constitutional and statutory provisions: TABOR, the statutory General Fund appropriations limit, and Amendment 23.

TABOR (Taxpayer's Bill of Rights). In addition to requiring voter approval for tax increases, TABOR restricts the annual growth rate in most state revenue to the sum of population growth and the rate of inflation. The state revenue limited by TABOR includes both General Fund and cash fund revenues. Although TABOR did not cause the drop in state revenue, it did have effects on the budget prior to the downturn and limits the government's ability to recover as the economy and revenue rebound.

TABOR requires that any revenue collected above the limit be refunded to taxpayers, unless voters allow the state to retain the money. In practice, these refunds are paid from the General Fund, although this is not specified in the constitution. During the 1990s, revenue continually exceeded the TABOR limit and the state refunded $3.25 billion in revenue from FY 1996-97 through FY 2000-01. The state is estimated to experience a TABOR surplus again in FY 2005-06, when revenue is projected to exceed the limit by $336 million. Figure 4 shows a history and projections of TABOR surpluses from FY 1996-97 through FY 2009-10 based on the December 2004 Legislative Council Staff revenue forecast. There were no surpluses beginning in FY 2001-02, when revenue fell $337.1 million below the allowable amount. Revenue was $509.6 million below the limit in FY 2002-03, and right at the limit for FY 2003-04.[2]

Figure 4: History and Projections of TABOR Surpluses (Dollars in millions)

Actual	
FY 1996-97	$139.0
FY 1997-98	563.2
FY 1998-99	679.6
FY 1999-00	941.1
FY 2000-01	927.2
FY 2001-02	0.0
FY 2002-03	0.0
FY 2003-04	0.0
Total	**$3,250.1**
Projections	
FY 2004-05	$0.0
FY 2005-06	336.0
FY 2006-07	552.4
FY 2007-08	544.2
FY 2008-09	646.4
FY 2009-10	782.8
Total	**$2,861.8**

[2] The state would have been $297.3 million above the TABOR limit during FY 2003-04. However, the state used the "population adjustment" to raise the limit enough to retain the revenue received. The population adjustment was available due to an underestimate of the state's population during the 1990s.

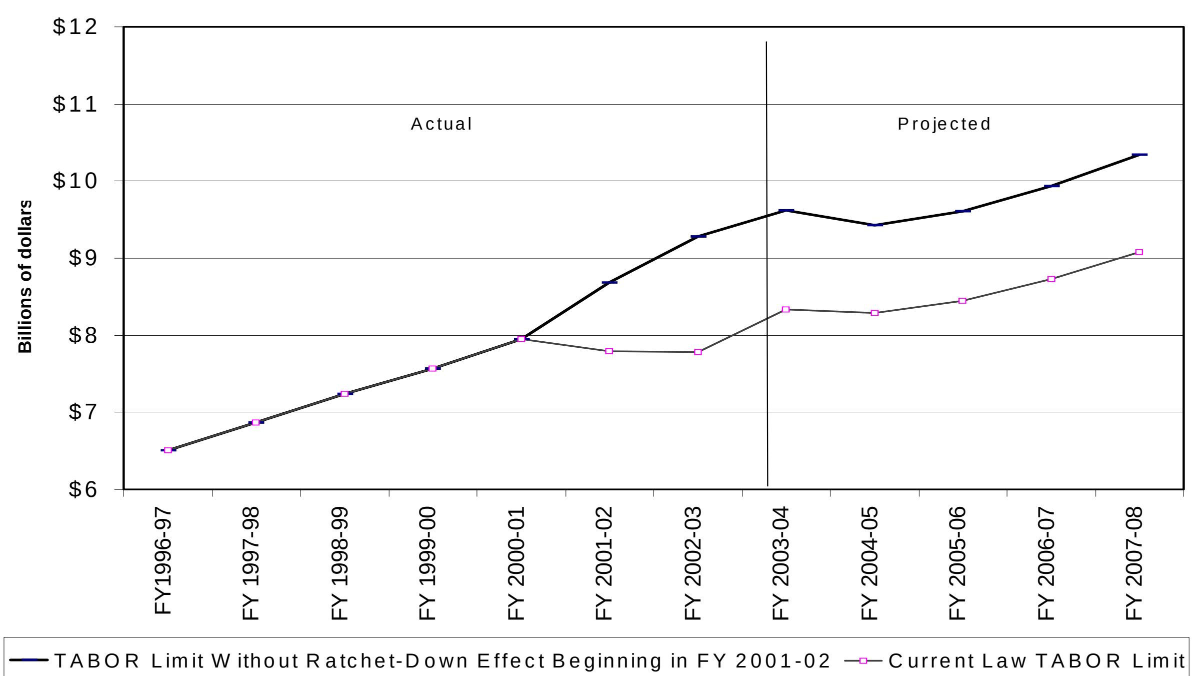
The "ratchet-down" effect. The TABOR limit is applied to either the prior year's revenue limit or actual revenue collected, whichever is less. Thus, when state revenue does not grow at the allowable rate, the next year's limit is lower than it otherwise would have been and is permanently lowered, creating a "ratchet-down" effect. Figure 5 shows a hypothetical example of how the ratchet down can impact the TABOR limit after a recession.

Figure 5: Example of the TABOR Ratchet Down

	Year 1	Year 2	Year 3	Year 4 Downturn	Year 5 With Ratchet	Year 5 No Ratchet
TABOR Limit	$1,000	$1,050	$1,100	$1,155	$1,080	$1,215
TABOR Revenue	$1,100	$1,155	$1,210	$1,030	$1,210	$1,210
TABOR Surplus	$100	$105	$110	$0	$130	$0
Revenue Retained By State	**$1,000**	**$1,050**	**$1,100**	**$1,030**	**$1,080**	**$1,210**

In FY 2001-02, the state collected $337.1 million less than the TABOR limit allowed. The lower amount of revenue became the new basis for determining the following year's limit. Additionally, revenue in FY 2002-03 was an estimated $509.6 million lower than the limit for that year. The TABOR limit was reduced by almost $1 billion from where it would have been without the ratchet down. Figure 6 illustrates the impact of the recession on the TABOR limit. The top line in the graph shows the limit without the ratchet-down effect. The bottom line shows the limit under current law. As can be seen, the limit has permanently moved to a lower base from which state spending can grow. The decline in the limit for FY 2004-05 is due to the University of Colorado becoming an enterprise.

Figure 6: Ratchet-Down Effect In Colorado



Six-percent spending limit. General Fund appropriations growth is statutorily limited to 6 percent annually. TABOR prohibits the 6 percent limit from being weakened without voter approval. During the 1990s, General Fund revenue increased sufficiently to allow for an annual 6 percent increase in operating expenditures and for additional money to be spent on capital construction, controlled maintenance, and highway construction projects. However, over the last four fiscal years, the legislature has appropriated less than the full 6 percent allowable increase because of the lack of General Fund revenue available for appropriation. In the future, if sufficient General Fund revenue is available, the 6 percent limit will impact the ability of the legislature to address programs recently reduced.

Mandated funding for K-12 Education. Amendment 23, a state constitutional amendment adopted by the voters in 2000, requires increased funding for K-12 education. It requires that the statewide "base" per pupil funding in the school finance act and total funding for categorical programs be increased by at least inflation plus one percent through FY 2010-11, and at the rate of inflation thereafter.[3] It also requires that the state General Fund contribution to the school finance act increase by a minimum of 5 percent annually through FY 2010-11 when personal income grows by at least 4.5 percent.

Amendment 23 also created the State Education Fund and diverts annually to the fund an amount equal to one-third of one percent of Colorado taxable income. The diversion began in December 2000. Amendment 23 exempts the diversion from TABOR limits. At the time Amendment 23 was adopted, the expectation was that the diversion would simply reduce the TABOR surplus; it was not expected to affect revenue available for other state programs. When the recession hit and state revenue declined, the TABOR surplus was eliminated and the diversion was made from revenue that would have gone into the General Fund. The diversion reduced General Fund revenue by over $1 billion from FY 2001-02 through FY 2004-05. As a result, the diversion further "ratcheted down" the TABOR revenue base when the economic downturn began. Therefore, only about half of the Amendment 23 diversion will be new revenue available to the state despite its exemption from TABOR.

Other Factors Contributed to the State's Budget Situation

Tax cuts. Tax cuts initiated primarily during the 1999 and 2000 sessions amounted to approximately $450 million a year. The largest cuts were made to the income and sales tax rates. The income tax rate was reduced from 5.0 percent to 4.75 percent in 1999 and then to 4.63 percent in 2000. The state sales tax rate was cut from 3.0 percent to 2.9 percent in 2001. These reductions in tax rates caused a reduction in the TABOR surplus during the years in which revenue exceeded the TABOR limit. However, starting in FY 2001-02, with the disappearance of the TABOR surplus, the cuts reduced General Fund revenues available to fund state government. Further, the reduction in revenue caused the TABOR limit to ratchet down to a lower level. Figure 7 provides a hypothetical example of how a tax cut and subsequent recession can impact the TABOR limit.

[3] Amendment 23 requires certain minimum levels of funding for most of K-12 education. However, some K-12 education funding not covered by Amendment 23 was reduced during recent budget reductions.

Figure 7: Example of the Impact of a Tax Cut on the TABOR Limit

	Year 1	Year 2 $100 Tax Cut	Year 3	Year 4 Downturn	Year 5 With Ratchet	Year 5 No Ratchet
TABOR Limit	$1,000	$1,050	$1,100	$1,155	$980	$1,215
TABOR Revenue	$1,100	$1,055	$1,105	$935	$1,105	$1,105
TABOR Surplus	$100	$5	$5	$0	$125	$0
Revenue Retained By State	**$1,000**	**$1,050**	**$1,100**	**$935**	**$980**	**$1,105**

Senior citizen property tax homestead exemption. In 2000, Colorado voters approved an amendment to the Colorado Constitution referred by the legislature to create a property tax exemption for qualifying seniors or their surviving spouses. For those who qualify, 50 percent of the first $200,000 in actual value of their primary residence is exempted from property taxes. The referendum included a provision that allowed the General Assembly to raise or lower the exempt amount. The cost of the senior property tax exemption was originally expected to be covered by surplus TABOR revenue. However, with the absence of a TABOR surplus, the General Fund paid for the cost of the homestead exemption, which amounted to $62.6 million in FY 2002-03. The General Assembly temporarily eliminated the homestead exemption for FY 2003-04 through FY 2005-06.

TABOR refund method. TABOR requires that any revenue collected above the constitutional limit be returned to taxpayers within one year of the fiscal year in which it was collected. The refund is paid out of the General Fund. HB 98-1414 allowed the state to book the refund in the year it was refunded, rather than in the year that the surplus was incurred. In effect, this law allowed the state to pre-spend the TABOR surplus. This accounting change had little impact as long as the TABOR surplus increased each year. However, the state had to refund $927.2 million in FY 2001-02 with only $255.6 million available in excess of its FY 2000-01 reserve requirement. The rest had to be paid from revenue collected during FY 2001-02, a year in which General Fund revenue declined by $980.9 million due to the economic downturn and the Amendment 23 diversion of income tax revenue to the State Education Fund. The General Assembly repealed House Bill 98-1414 during the 2003 session.

BALANCING THE STATE BUDGET, FY 2001-02 THROUGH FY 2004-05

The state is constitutionally required to maintain a balanced budget. Thus, for every fiscal year, the legislature must match expenditures with available revenue. The legislature became aware of declining revenues beginning with the special session in the fall of 2001. At this time, in anticipation of a revenue shortfall for the FY 2001-02 budget, the legislature adopted SB 01S2-023, which transferred $219.3 million from the state Capital Construction Fund to the General Fund. This bill also capped the amount of sales tax revenue to the Highway Users Tax Fund for FY 2001-02.

Throughout the 2002, 2003, and 2004 sessions, the legislature used several strategies to balance the state budget. It transferred about $1.2 billion from "special purpose" funds to supplement the General Fund, reduced General Fund appropriations for programs and replaced them with increased fees, existing cash sources, or federal funds, spent money from reserves, cut capital construction funding, found additional revenue for the General Fund, and made accounting changes. In addition, the legislature reduced General Fund appropriations for certain programs and services, especially programs that could not be refinanced with other non-General Fund revenue sources. It is important to note that some of these reductions were not ongoing reductions in programs, but were one-time reductions implemented to balance the state budget for a certain fiscal year.

Figure 8 provides summary information on the various strategies the state has used from FY 2001-02 to FY 2004-05 to balance the state budget. It also indicates the estimated impact each of the strategies had on the General Fund during this period. Appendix A provides information on the estimated General Fund impact of each of these various measures for each fiscal year.

Figure 8: Summary of Budget Balancing Measures Used and Estimated General Fund Impact, FY 2001-02 to FY 2004-05

Capital Construction Reductions **$625.8 million**	• Cut existing capital construction projects in early stages. Transferred the balances of the Capital Construction Fund and Controlled Maintenance Trust Fund to the General Fund • Reduced, then eliminated, the scheduled $100 million statutory annual transfer of General Fund money to the Capital Construction Fund. **Examples:** • $9.5 million in state funding for a new law school at the University of Colorado was cut. • $19.1 million in state funding for a correctional facility expansion was cut.
Use of State Reserves[4] **$88.1 million**	• Tapped into the four percent reserve. State law requires four percent of General Fund appropriations to be set aside in case revenue is insufficient to meet the state's General Fund obligations. **Example:** • The reserve was reduced from $225.7 million to $137.6 million in FY 2001-02.
Fund Transfers **$917.2 million**[5]	• Transferred money from special purpose funds to the General Fund. Appendix C lists all the fund transfers from 2001-02 through FY 2004-05. **Examples:** • $20.0 million was transferred from the Subsequent Injury Fund in FY 2002-03. • $2.0 million was transferred from the Children's Basic Health Plan Trust Fund in FY 2002-03

[4] Since the four percent statutory reserve is required to be filled to four percent of appropriations each year, the use of the reserve to help balance the state's budget represents only a one-time impact on General Fund spending.

[5] In addition to this amount, $319.8 million was transferred from the Capital Construction Fund to the General Fund from FY 2001-02 through FY 2004-05. This amount is included in the total amount of Capital Construction reductions. Therefore, the amount is excluded from the total fund transfers amount for purposes of calculating the total impact of all the budget balancing measures.

Figure 8: Summary of Budget Balancing Measures Used and Estimated General Fund Impact, FY 2001-02 to FY 2004-05 (continued)

Refinancing through Non-General Fund Sources **$453 million[6]**	• Refinanced certain programs paid for from the General Fund through increasing fees paid by individuals receiving services,[7] or through using federal funds or existing cash sources. **Examples:** • SB 03-186 adjusted numerous judicial fees to allow for approximately $10.3 million of the Judicial Branch's costs to be funded with cash rather than General Funds. • SB 03-193 shifted the funding of the State Historical Society from the General Fund to the State Historic Fund which receives limited gaming revenues.
Accounting Changes **$0**	• Changes in how the state accounts for certain expenditures were made to achieve a one-time General Fund savings to balance the budget for a certain fiscal year. However, accounting changes do not result in net expenditure reductions. The expenditures are accounted for in future fiscal years. **Examples:** • SB 03-197 reduced the amount of General Fund expenditures by $89.4 million for FY 2002-03 by shifting the General Fund portion of the payroll for state employees for June 2003 from June 30, 2003, to July 1, 2003. • SB 03-196 moved certain Medicaid expenditures to a cash basis of accounting so the expenditure is accounted for when the claim is paid. This measure reduced General Fund expenditures by $70 million in FY 2002-03.
Revenue Enhancements to General Fund **$118 million**	• Increased revenue to the General Fund without raising taxes. **Examples:** • SB 03-185 created a 30-day tax amnesty program that allowed taxpayers who owed back taxes an opportunity to pay off their tax liability in full without penalties and reduced interest. The program raised $19.1 million in revenue for the General Fund. • SB 03-296 temporarily diverted part of the moneys raised by the unemployment tax surcharge from the Unemployment Compensation Fund to the General Fund.

[6] The amount includes $208.9 million in increased tuition to higher education institutions. This represents money that was used in an attempt to offset reductions of about $150 million in General Fund support to higher education. However, according to the Joint Budget Committee, it is important to note that while total funding to higher education institutions increased 4.8 percent over the four-year period, total enrollment increased by 14.8 percent. On a per-student basis, General Fund and tuition revenue to higher education declined 8.7 percent.

[7] Additional revenue collected as a result of new or increased fees count toward the state's constitutional revenue limit under TABOR. Therefore, increased fee revenue increases the amount of state revenue required to be refunded in years there is a TABOR surplus. Since TABOR refunds are paid from the General Fund, increased cash revenue reduces the amount of General Fund available for other purposes in years there is a TABOR surplus. The General Assembly passed nearly 40 bills during the 2003 session increasing fees. A smaller number of fee bills were passed during the 2004 session. Further, some of the fee bills passed during 2003 were repealed during the 2004 session.

Figure 8: Summary of Budget Balancing Measures Used and Estimated General Fund Impact, FY 2001-02 to FY 2004-05 (continued)

Reductions in Programs **$568 million**[8]	• Reduced General Fund discretionary spending for certain programs and services for certain fiscal years or on an on-going basis. **Examples:** • The legislature eliminated salary increases for state employees in FY 2003-04. • SB 03-265 eliminated the senior citizen property tax exemption. The exemption is scheduled to be reestablished in 2006.
Total	**$2,769 million**

Source: Joint Budget Committee and Legislative Council Staff
Totals may not sum due to rounding.

Funding for State Departments

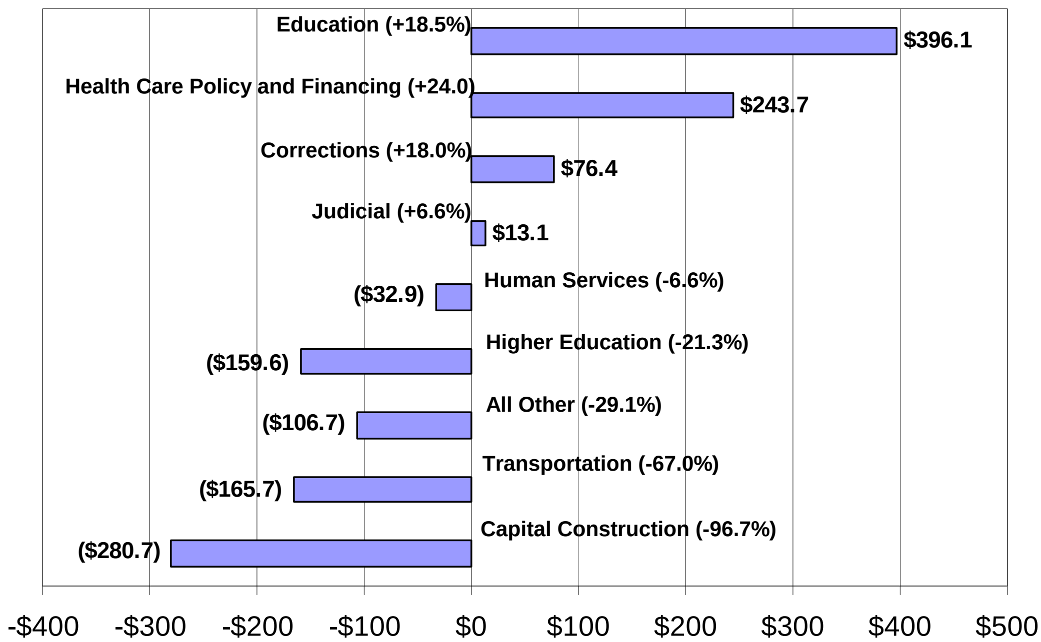
In FY 2004-05, General Fund revenue is estimated to be 8.3 percent lower than in FY 2000-01, the fiscal year before the economic downturn. However, four of the big six — Education, Health Care Policy and Financing, Corrections, and the Judicial Department — received $729.3 million in increased General Fund appropriations, a 19.2 percent increase, during this time to fund the growth in programs and services due to increasing caseloads, federal funding requirements, and constitutionally mandated spending increases in K-12 education. Health Care Policy and Financing and Education received the largest increases at 24.0 percent and 18.5 percent, respectively.

Because the state's revenue decline limited General Fund appropriations, to help offset the increase in General Fund money to these departments, General Fund appropriations to the rest of state government, including two of the big six — Human Services and Higher Education — decreased by $299.2 million, or 18.6 percent. As a result, departments with funding growth took up a larger proportion of the state's General Fund budget, and other departments' General Fund appropriations were reduced.

Figure 9 shows the percentage change in General Fund money for the big six, for all the other state departments, and for transportation, capital construction, and controlled maintenance from FY 2000-01 to FY 2004-05.

[8] About $39.6 million of this amount is program reductions in State Education Fund appropriations for K-12 education intended to increase the amount of State Education Fund money available for Public School Finance, thereby reducing the need for General Fund spending for such purpose. In addition, $25.3 million of this amount is from delaying the annual state contribution to the Fire and Police Pension Association (FPPA) for FY 2003-04 and FY 2004-05. The delay does not affect the number of annual payments or the total amount of those payments to the FPPA.

Figure 9: Change in General Fund Money,
FY 2000-01 to FY 2004-05 (dollars in millions)



Total appropriations to state departments. Although *General Fund* appropriations to most state departments were reduced, *total* appropriations to 16 of the state's 22 departments increased from FY 2000-01 to FY 2004-05 through increasing other funding sources to the departments, such as cash funds and federal funds. However, the departments of Agriculture, Treasury, Human Services, and Transportation, as well as the General Assembly and the Governor's Office, all received a decrease in appropriations from FY 2000-01 to FY 2004-05 as increased funding from non-General Fund sources was not as available for these departments.

Appendix C shows the change in both General Fund and total appropriations for all of state government between FY 2000-01 and FY 2004-05. The departments of Transportation and Human Services received the largest decrease in total appropriations over this period at 34.1 percent and 6.6 percent, respectively. The reduction in General Fund support for higher education, which was partially offset by tuition and fee increases, is demonstrated in the last two columns of Appendix C, where total operating appropriations for higher education increased by $132 million, or 8.6 percent, even though General Fund appropriations decreased by $159.6 million, or 21.3 percent.

ECONOMIC RECOVERY AND CONTINUING BUDGET CHALLENGES

The state's economy has begun to experience modest growth again and state revenues have also increased. However, state limits on revenue and spending, coupled with spending needs, will continue to make balancing the state budget difficult. State revenue available for appropriation is insufficient to pay for programs and services required under current law. Thus, a "structural deficit" exists in the state budget. Although several proposals have been debated to make permanent changes to alleviate the state's budget difficulties, none have been enacted thus far.

Colorado's Economy is Improving

According to the December 2004 Legislative Council Staff economic and revenue forecast, Colorado's economy is improving. However, employment still remains around 60,000 jobs below its peak level of December 2000. Although Colorado is lagging behind the national economic recovery, the forecast indicates that encouraging trends in corporate profits and business confidence will lead to an improving Colorado job market. The forecast also notes that personal income and consumer spending will continue to improve. The forecast estimates that General Fund revenue will increase by 7.0 percent in FY 2005-06.

The Structural Deficit

The economic downturn, continued program costs, and budget constraints have resulted in a structural deficit in the state's budget. A structural deficit exists when ongoing revenues are not sufficient to pay for ongoing program costs. To resolve a structural deficit, changes must be made to the framework of the state's revenue stream or budget to allow for ongoing increased revenues or decreased spending, or a combination of the two.

According to the Joint Budget Committee, to keep pace with inflationary costs, caseloads, and spending mandates, General Fund appropriations to fund existing state programs and services must grow by about $325.7 million for the FY 2005-06 budget. However, Legislative Council Staff estimates that only $167.3 million of the $325.7 million can be funded with available revenue. Therefore, the structural deficit is estimated to be about $158.4 million for FY 2005-06. At the same time, the state is estimated to collect $336.0 million in revenue above the TABOR limit in FY 2005-06 that must be refunded to taxpayers unless voters allow the state to keep the revenue. The legislature can use one-time revenue sources to balance the state budget. However, this strategy does not result in permanent reductions in the structural deficit if the need for expenditures is ongoing. Therefore, the deficit is only pushed off into the next fiscal year.

Proposals Discussed for Reform of TABOR and Amendment 23

To address the continuing budget issues, the legislature has debated a number of measures to refer to the voters so that the state could have more budget flexibility. These include:

- asking the voters to retain a portion of future TABOR surpluses;
- reducing K-12 funding requirements under Amendment 23, especially during an economic downturn;
- increasing the TABOR limit to remove the "ratchet down" effect;
- changing the TABOR revenue limit formula to a percentage of the Colorado economy as measured by statewide personal income rather than the change in inflation and population growth. This proposal is intended to allow the state budget to be more responsive to changes in the business cycle;
- creating a rainy day fund that could be accessed by the General Assembly through a two-thirds majority vote; and
- suspending the revenue limit and spending requirements of TABOR and Amendment 23 temporarily.

Appendix A: Estimated Impact of Budget Balancing Measures by Year, FY 2001-02 through FY 2004-05 (Dollars in millions)

	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	Total	Percent of Total
Capital Construction Reductions	$298.4	$133.6	$91.7	$102.1	$625.8	23%
Use of State Reserves[9]	88.1	NA	NA	NA	88.1	3%
Fund Transfers	716.1	176.6	(1.8)	26.2	917.2[10]	33%
Refinancing through Non-General Fund Sources	90.0	215.0	108.0	39.0	453.0[11]	16%
Accounting Changes	0	159.4	(159.4)	0	0	0%
Revenue Enhancements to General Fund	NA	38.0	49.0	31.0	118.0	4%
Reductions in Programs and Services	25.0	236.0	244.0	63.0	568.0[12]	21%
Total	$1,217.6	$958.6	$331.5	$261.3	$2,769.0	100%

Source: Joint Budget Committee and Legislative Council Staff
Totals may not sum due to rounding.

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[9] The four percent statutory reserve is required to be filled to four percent of appropriations each year. Therefore, the use of the reserve to help balance the state's budget in FY 2001-02 represents only a one-time impact on General Fund spending.

[10] In addition to this amount, $319.8 million was transferred from the Capital Construction Fund to the General Fund from FY 2001-02 through FY 2004-05. This amount is included in the total amount of Capital Construction reductions. Therefore, the amount is excluded from the total cash fund transfers amount for purposes of calculating the total impact of all the budget balancing measures.

[11] The amount includes $208.9 million in increased tuition to higher education institutions. This represents money that was used in an attempt to offset reductions of about $150 million in General Fund support to higher education. However, it is important to note that while total funding to higher education institutions increased 4.8 percent over the four-year period, total enrollment increased by 14.8 percent. On a per-student basis, General Fund and tuition revenue to higher education declined 8.7 percent.

[12] Some of these reductions were one-time reductions implemented to balance the state's budget for a certain fiscal year and programs or services were restored in a subsequent fiscal year. The figure includes about $39.6 million in K-12 education programs paid for from the State Education Fund and $25.3 million from delaying the annual state contribution to the FPPA for FY 2003-04 and FY 2004-05. The total amount of those payments to the FPPA was not affected.

Appendix B: Net Fund Transfers to the General Fund
FY 2001-02 through FY 2004-05

Fund (Bill Number)	Net Transfer to the General Fund				
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	Total
Advanced Technology Fund (SB 03-191 and SB 03-271)	$0	$1,063,124	$174,842	$0	$1,237,966
Alcohol and Drug Driving Safety Program Fund (SB 03-191)	0	1,000,000	0	0	1,000,000
Auto Dealers License Fund (HB 02-1391)	1,100,000	0	0	0	1,100,000
Capital Account of the Species Conservation Trust Fund (HB 02-1391, HB 02-1444, and SB 03-191)	3,000,000	1,000,000	0	0	4,000,000
Capital Construction Fund (SB 01S2-023, HB 02-1389, HB 02-1391, HB 02-1443, HB 02-1471, SB 03-179, and HB 04-1412)	298,363,311	21,337,019	0	132,982	319,833,312
Children's Basic Health Plan Trust Fund (HB 02-1391 and SB 03-190)	900,000	2,001,125	0	0	2,901,125
Collection Agency Cash Fund (HB 02-1391and SB 03-191)	462,000	120,000	0	0	582,000
Colorado Children's Trust Fund (SB 03-191)	0	980,396	0	0	980,396
Colorado Heritage Communities Fund (HB 04-1417)	0	0	0	74,236	74,236
Colorado State Veterans Trust Fund (SB 03-190)	0	2,280,900	0	0	2,280,900
Controlled Maintenance Trust Fund (HB 02-1391, HB 01-1267, SB 03-342, HB 04-1222)	253,400,000	0	1,985,213	0	255,385,213
Disabled Telephone Users Fund (HB 02-1391 and SB 03-191)	500,000	1,132,416	0	0	1,632,416
Law Enforcement Assistance Fund (SB 03-191)	0	357,000	0	0	357,000
Department of State Cash Fund (HB 02-1391, SB 03-191, and SB 03-188)	1,200,000	2,700,000	0	0	3,900,000
Educator Licensure Cash Fund (SB 03-191)	0	143,535	0	0	143,535
Emergency Response Cash Fund (SB 03-271)	0	0	486,613	0	486,613
Employment Support Fund (HB 02-1391, HB 02-1445, and SB 03-191)	15,000,000	11,400,000	0	0	26,400,000
Environmental Leadership Pollution Prevention Revolving Fund (HB 02-1444)	514,092	0	0	0	514,092
Family Support Registry Fund (HB 02-1391)	346,879	0	0	0	346,879
Fitzsimons Trust Fund (HB 02-1391)	18,400,000	0	0	0	18,400,000
Hazardous Substance Response Fund (HB 02-1391)	30,000,000	0	0	0	30,000,000
Infant Immunization Fund (SB 03-271)	0	0	240,000	0	240,000
Major Medical Insurance Fund (HB 02-1478 and SB 03-191)	$211,481,539	$13,518,461	$(10,000,000)	$0	$215,000,000

Appendix B: Net Fund Transfers to the General Fund
FY 2001-02 through FY 2004-05 (continued)

Fund (Bill Number)	Net Transfer to the General Fund				
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	Total
Motor Carrier Fund, Public Utilities Commission (SB 03-191)	0	1,300,000	0	0	1,300,000
Off-Highway Vehicle Recreation Fund (SB 03-271)	0	0	700,000	0	700,000
Persistent Drunk Driver Cash Fund (HB 02-1391)	500,000	0	0	0	500,000
Petroleum Storage Tank Fund (HB 02-1391)	4,000,000	0	0	0	4,000,000
Publicly-Supported Libraries Fund, State Grants (SB 03-191)	0	12,875	0	0	12,875
Read-To-Achieve Cash Fund (HB 02-1391 and SB 03-191)	1,900,000	1,440,621	0	0	3,340,621
Real Estate Recovery Fund (SB 03-191)	0	3,200,000	0	0	3,200,000
Severance Tax Trust Fund, Operational Account (HB 02-1391, SB 03-191, and SB 03-271)	20,200,000	6,877,397	4,600,000	0	31,677,397
State Rail Bank Fund (HB 02-1391)	500,000	0	0	0	500,000
Subsequent Injury Fund (SB 03-191)	0	20,000,000	0	0	20,000,000
Supplier Database Cash Fund (SB 03-191)	0	300,000	0	0	300,000
Teacher Development Fund (SB 03-191)	0	392,880	0	0	392,880
Technology Learning Grant and Revolving Loan Program in the Department of Higher Education (SB 03-198)	0	314,670	0	0	314,670
Tobacco Litigation Settlement Trust Fund (HB 02-1445, SB 03-190, SB 03-282 and HB 04-1421) 24-22-115.5	138,123,849	33,515,188	0	20,152,558	191,791,595
Tobacco Litigation Settlement Cash Fund (HB 02-1391, SB 03-190 and HB 04-1421) 24-22-115	3,500,000	33,226,778	0	6,007,059	42,733,837
Trade Name Registration Fund (HB 02-1391)	400,000	0	0	0	400,000
Unclaimed Property Trust Fund (HB 02-1445)	9,970,171	30,000,000	0	0	39,970,171
Uniform Consumer Credit Code Cash Fund (HB 02-1391 and SB 03-191)	150,000	100,000	0	0	250,000
Victims & Witnesses Assistance & Law Enforcement Fund (SB 03-271)	0	0	10,072	0	10,072
Vital Statistics Records Cash Fund (SB 03-191)	0	763,680	0	0	763,680
Waste Tire Cleanup Fund (HB 02-1391 and SB 03-191)	600,000	1,468,152	0	0	2,068,152
Workers' Compensation Cash Fund (SB 03-191)	0	6,000,000	0	0	6,000,000
Total	**$1,014,511,841**	**$197,946,217**	**($1,803,260)**	**$26,366,835**	**$1,237,021,633**

Source: Legislative Council Staff and State Controller's Office

Appendix C
Increase (Decrease) in Appropriations between FY 2000-01 and FY 2004-05

Department	Increase (Decrease) in GF Appropriation		Increase (Decrease) in Total Appropriation	
	$ Millions	**% Change**	**$ Millions**	**% Change**
Health Care Policy and Financing	$243.7	21.6%	$718.4	31.3%
Education	$396.1	18.5%	$873.5	34.3%
Corrections	$76.4	18.0%	$74.9	15.5%
Judicial	$13.1	6.3%	$31.5	12.3%
Subtotal	**$729.3**	**19.2%**	**$1,698.3**	**30.4%**
Public Safety	($0.7)	(1.2%)	$53.5	32.2%
Legislature	($0.6)	(1.9%)	($1.3)	(4.2%)
Military and Veterans Affairs	($0.2)	(4.3%)	$11.9	10.2%
Human Services	($32.9)	(6.6%)	($117.2)	(6.6%)
Governor	($4.2)	(20.8%)	($1.5)	(4.0%)
Higher Education	($159.6)	(21.3%)	$132.0	8.6%
Revenue	($25.0)	(21.9%)	$44.1	9.2%
Law	($2.0)	(22.5%)	$2.8	8.8%
Natural Resources	($6.7)	(23.2%)	$16.6	10.4%
Personnel and Administration	($7.0)	(45.6%)	$28.5	19.6%
Regulatory Agencies	($0.9)	(47.9%)	$3.2	5.3%
Agriculture	($5.9)	(58.1%)	($0.2)	(0.8%)
Public Health and Environment	($19.3)	(59.7%)	$24.1	9.4%
Local Affairs	($7.6)	(60.7%)	$43.5	32.3%
Treasury	($26.6)	(85.5%)	($7.8)	(2.8%)
Transportation	NA	NA	(474.4)	(34.1%)
State	NA	NA	10.8	94.8%
Labor and Employment	NA	NA	8.2	6.6%
Subtotal	**($299.3)**	**(18.6%)**	**($223.3)**	**4.4%**
Total	**$430.0**	**8.0%**	**$1,475.0**	**11.9%**

Source: Joint Budget Committee
Totals May Not Sum Due to Rounding