


Colorado Legislative Council Staff Fiscal Note
STATE
FISCAL IMPACT

Drafting Number: LLS 10-0331
Prime Sponsor(s): Rep. Court
 Sen. Heath

Date: January 25, 2010
Bill Status: House Finance
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TITLE: CONCERNING THE CONVERSION OF THE GENERAL FUND RESERVE INTO A STATE BUDGET STABILIZATION RESERVE FUND, AND, IN CONNECTION THEREWITH, INCREASING THE AMOUNT OF THE RESERVE FUND IN CERTAIN FUTURE FISCAL YEARS ABOVE THE AMOUNT OF THE GENERAL FUND RESERVE CURRENTLY REQUIRED FOR SUCH YEARS, REQUIRING RESERVE FUND INTEREST AND INCOME TO BE CREDITED TO THE RESERVE FUND, AND REDUCING THE PERCENTAGE OF ESTIMATED RESERVE FUND DEPLETION THAT WILL REQUIRE THE GOVERNOR TO FORMULATE A PLAN FOR REDUCING GENERAL FUND EXPENDITURES FROM THE PERCENTAGE OF ESTIMATED GENERAL FUND RESERVE DEPLETION THAT CURRENTLY TRIGGERS THAT REQUIREMENT.

Fiscal Impact Summary	FY 2009-2010	FY 2010-2011	FY 2011-2012
State Revenue	See State Revenue section.		
State Transfers or Diversions Transfer from the General Fund to the State Budget Stabilization Fund	(\$149.1 million)	(\$298.3 million)	(\$298.3 million)
State Expenditures	See State Expenditures section.		
FTE Position Change			
Effective Date: June 30, 2010.			
Appropriation Summary for FY 2010-2011: None required.			
Local Government Impact: None.			

Summary of Legislation

Recommended by the Long-Term Fiscal Stability Commission, this bill:

- converts the General Fund Reserve into a State Budget Stabilization Reserve Fund;
- identifies the amount required to be in the fund;
- identifies actions required by the Governor when the fund is expected to be drawn down to a certain point; and
- requires that all income from interest generated by the fund remain in the fund.

Creation of the State Budget Stabilization Reserve Fund. This bill eliminates the General Fund Reserve and creates a State Budget Stabilization Reserve Fund in the State Treasury for the purpose of budget stabilization during economic downturns.

Required fund size. Under current law the General Fund Reserve will gradually increase by 0.5 percent a year over a five-year period beginning in FY 2012-13 from 4.0 percent of General Fund appropriations to 6.5 percent. Notably, the schedule of percentage increases will be delayed, with the reserve requirement remaining at 4.0 percent of General Fund appropriations, until Colorado personal income grows by at least 5 percent during the calendar year.

Under this bill, these scheduled increases would occur in the newly-created State Budget Stabilization Reserve Fund and would be subject to the same 5 percent personal income growth trigger. Once the fund reaches 6.5 percent, the bill requires that the fund increase by at least 1.0 percent each year until the fund is equal to 15 percent of General Fund appropriations. Table 1 shows the schedule of the percentage of General Fund appropriations required for the General Fund Reserve under current law and the State Budget Stabilization Reserve Fund under this bill. Based on the December Legislative Council Staff forecast, personal income is not expected to grow by 5 percent in 2012, therefore this schedule will be delayed at least one year.

Table 1. Required Minimum Reserve or Reserve Fund as a Percent of General Fund Appropriations			
Fiscal Year	General Fund Reserve Under Current Law	State Budget Stabilization Reserve Fund Under HB10-1072*	
FY 2009-10	2.0 %	<i>Same as current law</i>	\$149.1 million
FY 2010-11	4.0 %	<i>Same as current law</i>	\$298.3 million
FY 2011-12	4.0 %	<i>Same as current law</i>	\$298.3 million
FY 2012-13**	4.5 %**	<i>Same as current law**</i>	\$335.5 million**
FY 2013-14	5.0 %	<i>Same as current law</i>	\$372.8 million
FY 2014-15	5.5 %	<i>Same as current law</i>	\$410.1 million
FY 2015-16	6.0 %	<i>Same as current law</i>	\$447.4 million
FY 2016-17	6.5 %	<i>Same as current law</i>	\$484.7 million
FY 2017-18 and each succeeding year	At least 6.5 %	The lesser of 15 % or the prior year's percentage plus 1%	Up to \$1,118.5 million

* Dollar amounts based on the FY 2009-10 budget as of the end of the 2009 legislative session.

** Starting FY 2012-13, reserve increases are subject to a trigger based on Colorado personal income growth.

Actions required by the Governor during budget shortfalls. Current law requires the Governor to formulate a plan to reduce General Fund appropriations when revenue forecasts indicate that a budget shortfall will result in the General Fund Reserve being drawn down by half of its required amount such that at least half of the amount required to be in the reserve remains. This bill

requires the Governor to take action when the reserve fund is expected to be drawn down by the greater of two percent of General Fund appropriations or one third of the required reserve fund balance.

Background

The General Fund Reserve. In some literature, the General Fund Reserve is not considered a budget stabilization fund or "rainy day fund" due to its size and the requirement that it be refilled each year. Funding the reserve every year is a statutory requirement. Over the course of the state's history, the required size of the General Fund Reserve has been as high as 6 percent of General Fund appropriations, and as low as zero (as was the case during the economic downturn and budget shortfall in FY 2001-02).

State Revenue

Interest earnings. No net revenue impact would result from the passage of this bill. However, the bill changes where revenue from interest earnings is accrued. Under current law, interest earnings from moneys in the General Fund Reserve are not subject to the requirement that they stay in the reserve and can therefore be saved or spent for any purpose. This bill requires that interest earnings remain in the reserve fund. Based on Legislative Council Staff estimates, interest earnings on money in the reserve fund would total \$3 million in FY 2009-10, \$6 million in FY 2010-11, and \$6.7 million in FY 2011-12.

State Transfers or Diversions

Conversion of the reserve to the reserve fund. To convert the General Fund Reserve to the State Budget Stabilization Reserve Fund, this bill would require that \$149.1 million be transferred from the General Fund into the State Budget Stabilization Reserve Fund in FY 2009-10 and \$298.3 million be transferred in FY 2010-11 and FY 2011-12. This amount is equal to 2.0 percent of General Fund appropriations in FY 2009-10 and 4.0 percent of General Fund appropriations in FY 2010-11 and 2011-12, the same amounts required to be in the reserve under current law. Estimates for FY 2009-10 are based on the budget as of the end of the 2009 legislative session. Because the state budgets for FY 2010-11 and FY 2011-12 have yet to be determined, estimates for FY 2010-11 and FY 2011-12 assume the same amount of General Fund appropriations as is currently budgeted for FY 2009-10.

The reserve fund as a trigger for transfers. A number of transfers, including the transfer of federal mineral leasing revenues to higher education institutions to offset budget cuts, are triggered based upon whether or not there is sufficient revenue to fully fund the General Fund Reserve. The conforming language of this bill changes the trigger so that it is based upon the full funding of the newly created State Budget Stabilization Reserve Fund. Because more money is required to fully fund the reserve starting when the fund must increase by 1.0 percent each year, the likelihood that these transfers would be triggered may be reduced in future years.

State Expenditures

By changing the amount of reserve funds required for the Governor to take action to reduce General Fund expenditures from one half to the greater of one third or two percent of General Fund appropriations, this bill may prompt the Governor to take action sooner than under current law. Additionally, when the required reserve percentage is in excess of 4.0 percent, this bill requires that more money remain in the reserve fund than under current law, thereby reducing the amount of General Funds available for appropriation in years when the reserve fund is drawn down.

Department of Personnel and Administration. The Department of Personnel and Administration will incur a cost for accounting, reporting, and monitoring the new fund. This cost amounts to the expenses required to employ 1.0 FTE for every 25 cash funds. These incremental increases in cost do not justify an increase in appropriations for FY 2010-11, but may be addressed through the annual budgeting process.

Departments Contacted

Treasury
Transportation
Joint Budget Committee
Legislative Council Staff

Personnel and Administration
Higher Education
Governor's Office