Colorado Legislative Council Staff

HB16-1450

FINAL FISCAL NOTE

FISCAL IMPACT: ☒ State ☒ Local ☐ Statutory Public Entity ☒ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 16-1256	**Date:**	May 24, 2016
Prime Sponsor(s):	Rep. Hullinghorst Sen. Guzman; Steadman	**Bill Status:**	Postponed Indefinitely
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BILL TOPIC: ALLOCATE ADDITIONAL AVAILABLE STATE REVENUES

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue		
State Transfers		
General Fund	Potential decrease.	($62.6 million)
Cash Funds	Potential increase.	62.6 million
State Expenditures		**$21.1 million**
General Fund	Workload increase.	21.1 million
Appropriation Required: None.		
Future Year Impacts: Not estimated.		

NOTE: This bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

Summary of Legislation

Conditional upon House Bill 16-1420 becoming law, the bill requires the Legislative Council Staff (LCS) and the Governor's Office of State Planning and Budgeting (OSPB) to prepare estimates of the amount that the state would be obligated to refund for FY 2016-17 through FY 2020-21 under subsection (7) of the Taxpayer's Bill of Rights (TABOR) had HB16-1420 not become law. If a forecast indicates that a refund would have been required, the bill designates how this amount is to be expended.

FY 2016-17. If the December 2016 LCS forecast indicates that the state would have been expected to incur a TABOR refund obligation for FY 2016-17 absent HB16-1420, then, on December 31, 2016, the bill transfers or allocates up to $155.7 million from the General Fund to various state functions as follows:

- a transfer of $50.0 million to the Highway Users Tax Fund for allocation to the State Highway Fund;
- a transfer totaling $16.2 million, in equal parts to the Severance Tax Trust Fund and the Local Government Severance Tax Fund;
- an allocation of $40.0 million to the Department of Education to reduce the negative factor in the state share of total program funding for school finance; and

- an allocation of $49.5 million to the College Opportunity Fund and institutions of higher education to offset the cost of tuition, improve student services and academic quality, address controlled maintenance needs, and increase support for financial aid.

If the amount that would be expected to be refunded is insufficient to fund all of the functions listed, funding is first allocated to the first listed priority until it is fully funded, and then to the second listed priority until fully funded, and so forth.

FY 2017-18 through FY 2020-21. As part of their March forecasts for 2016 through 2020, both the LCS and the OSPB are required to include estimates of the TABOR refund obligation that the state would be expected to incur in the following fiscal year absent HB16-1420. On July 1 of the following fiscal year, the bill transfers or allocates the full amount identified in the forecast selected by the General Assembly as the basis for the budget to various state functions.

For FY 2017-18 through FY 2019-20, the bill prioritizes two off-the-top uses for this revenue. First, moneys are dedicated to fund any increase in the amount of Senate Bill 09-228 transfers as a result of the enactment of HB16-1420. Second, transfers are prioritized for the Severance Tax Trust Fund and the Local Government Severance Tax Fund until these funds together receive a total of $16.2 million. Any remaining revenue after these two obligations are funded is allocated as shown in Table 1.

Table 1. Allocations of General Fund Retained Revenue Under HB16-1450

	FY 2017-18* FY 2018-19* FY 2019-20*	FY 2020-21
State Education Fund	30%	20%
College Opportunity Fund and Higher Education Institutions	25%	20%
Capital Construction Fund	15%	10%
Severance Tax Trust Fund and Local Gov't Severance Tax Fund	10%**	10%**
Highway Users Tax Fund		20%
Amount to Remain in General Fund	20%	20%

* *For FY 2017-18 through FY 2019-20, retained revenue is first dedicated to fund increases in SB09-228 transfers and ensure a total of $16.2 million in transfers to the Severance Tax Trust Fund and Local Government Severance Tax Fund.*

** *This amount is transferred in equal parts to each fund, except that the total amount transferred to both funds under HB16-1450 is capped at $363,104,501. Any excess amount is transferred instead to the Capital Construction Fund.*

The bill specifies uses for the amounts transferred to the Highway Users Tax Fund in FY 2016-17 and FY 2020-21, and for the amounts transferred to the fund under SB09-228. These amounts are to be allocated to the State Highway Fund and used to fund a list of projects identified in the bill.

Medicaid study. During FY 2016-17, the bill directs the LCS and the Joint Budget Committee (JBC) Staff to study state health care under Medicaid. The LCS and the JBC Staff are directed to evaluate opportunities and proposals to more efficiently allocate state revenue by reducing growth in Medicaid spending, and to reduce costs through federal waivers, co-pays, and other cost sharing mechanisms. The agencies are required to report to the JBC on their progress in conjunction with the hearing for the Department of Health Care Policy and Financing in 2016 and to present the results of the study in conjunction with the department's 2017 SMART Act hearing.

State Revenue

While the bill does not affect total state revenue, it creates state transfers as described below.

State transfers — FY 2016-17. The bill is not expected to result in General Fund transfers to cash funds during FY 2016-17. Because the state is not expected to incur a TABOR refund obligation under current law, the enactment of HB16-1420 is not expected to allow the state to retain and spend any additional revenue for the fiscal year.

Transfer amounts are contingent upon December 2016 expectations for the FY 2016-17 TABOR refund obligation but for the passage of HB16-1420. As expectations for revenue change, so too will expectations for transfers. If revenue expectations increase, the bill authorizes a maximum transfer of $50.0 million to the Highway Users Tax Fund and $8.1 million to each of the Severance Tax Trust Fund and the Local Government Severance Tax Fund.

State transfers — FY 2017-18. The bill is expected to increase General Fund transfers to cash funds by a total of **$62.6 million in FY 2017-18**. General Fund transfers will increase as follows:

- $25.3 million to the State Education Fund;
- $12.7 million to the Capital Construction Fund;
- $12.3 million to the Severance Tax Trust Fund; and
- $12.3 million to the Local Government Severance Tax Fund.

Similar transfers may occur in future fiscal years depending on the state budget environment.

Assumptions. But for the enactment of HB16-1420, the state is expected to incur a TABOR refund obligation of $267.7 million for FY 2017-18. The bill dedicates the first $167.1 million of this amount to increases in SB09-228 transfers resulting from the enactment of HB16-1420. Because these transfers are required by statute regardless of the enactment of this bill, they are not identified as increases for the purposes of this fiscal note. The stated transfer amounts for FY 2017-18 include a $16.2 million off-the-top allocation to the severance tax funds. The remaining transfers account for 55 percent of the $84.3 million remaining after all off-the-top allocations are funded.

State Expenditures

The bill increases state General Fund expenditures by **$21.1 million in FY 2017-18**. Spending may increase by similar amounts in future fiscal years depending on the state budget environment.

Department of Higher Education. The bill will increase General Fund appropriations to the College Opportunity Fund and institutions of higher education by $21.1 million in FY 2017-18, or 25 percent of the $84.3 million remaining after off-the-top priorities are funded from the TABOR surplus expected absent HB16-1420. This amount will be expended to offset the cost of tuition, improve student services and academic quality, address controlled maintenance needs, and increase support for financial aid.

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Revenue forecasting. As part of their normal forecast processes, LCS and OSPB will be required to determine whether the state would be expected to incur an obligation for TABOR refunds had HB16-1420 not become law. Each agency can accomplish this workload increase within existing appropriations.

Medicaid study. The LCS and the JBC Staff will be required to conduct a Medicaid study during FY 2016-17, the results of which will be presented during SMART Act hearings for the Department of Health Care Policy and Financing in late 2017. It is assumed that the scope of the study will largely consist of research already conducted by legislative agencies in preparation for JBC and SMART Act hearings, and that any additional research required will be similar to that conducted by the LCS and the JBC Staff. Given the study schedule and subject matter, it is expected that additional workload can be accomplished within existing appropriations.

Local Government Impact

The bill is expected to increase General Fund transfers to the Local Government Severance Tax Fund by $12.3 million in FY 2017-18. This revenue is available for energy impact assistance grants and direct distributions to local communities impacted by natural resource extraction.

School District Impact

The bill is expected to increase General Fund transfers to the State Education Fund by $25.3 million in FY 2017-18. To the extent that the bill increases the state share of expenditures for school finance, it will increase per-pupil funding to school districts.

Under current law, school districts and Boards of Cooperative Educational Services (BOCES) may submit a separate estimate of fiscal impacts within seven days of a bill's introduction. Estimates submitted by districts or BOCES for this bill can be found on the Legislative Council website at this address: ***http://1.usa.gov/23AxLIT***.

Effective Date

The bill was postponed indefinitely by the Senate Finance Committee on May 10, 2016.

State and Local Government Contacts

Legislative Council Staff
