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**MEMORANDUM**

February 27, 2017

**TO:** Representative Dan Thurlow

**FROM:** Kate Watkins, Senior Economist, (303) 866-3446

**SUBJECT:** TABOR, Revenue Changes, and the State Budget Situation

During years when state revenue exceeds the TABOR limit, changes in cash funds and General Fund revenue impact the state budget situation differently. These differences arise because the TABOR surplus is refunded to taxpayers using General Fund moneys.

Table 1 summarizes the different TABOR and General Fund impacts resulting from a \$1 revenue change.

**Table 1  
General Fund and TABOR Impacts Resulting from Revenue Changes**

TABOR Situation	Cash Funds Revenue <sup>1</sup>		General Fund Revenue <sup>2</sup>	
	\$1 Decrease	\$1 Increase	\$1 Decrease	\$1 Increase
<b>TABOR Surplus</b>	\$1 decrease in the TABOR refund; \$1 increase in available General Fund revenue.	\$1 increase in the TABOR refund; \$1 decrease in available General Fund revenue.	\$1 decrease in the TABOR refund.	\$1 increase in the TABOR refund.
			<i>No net General Fund impact.</i>	
<b>No TABOR Surplus</b>	<i>No net TABOR refund or General Fund impact.</i>		\$1 decrease in available General Fund revenue.	\$1 increase in available General Fund revenue.

<sup>1</sup> Cash funds revenue may be increased or reduced by severance or gas tax expenditure changes, or by other tax or fee changes that impact revenue to cash funds.

<sup>2</sup> General Fund revenue may be increased or decreased by sales, use, and income tax expenditure changes, or by other tax or fee changes that impact General Fund revenue.

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## TABOR, Revenue Changes, and the State Budget Situation

The following describes each of the scenarios shown in Table 1 in greater detail.

***Increase in cash funds revenue.*** When the state experiences a TABOR surplus, an increase in cash funds revenue increases the TABOR refund obligation by an equal amount. As required by state law, cash funds are dedicated towards certain programs, and are generally not legally or practically available to be used to refund the TABOR surplus. General Fund revenue then must then be used to refund the additional TABOR surplus to taxpayers.

When the state is not experiencing a TABOR surplus, an increase in cash funds increases available revenue for cash funded projects, without impacting the availability of General Fund revenue because revenue is not required to be refunded to taxpayers.

***Decrease in cash funds revenue.*** When the state experiences a TABOR surplus, a decrease in cash funds revenue decreases the TABOR refund obligation by an equal amount. In doing so, the state may retain or spend the General Fund revenue that otherwise would have been refunded to taxpayers. When the state is not experiencing a TABOR surplus, a decrease in cash funds decreases available revenue for cash funded projects, and does not impact the availability of General Fund revenue.

***Increase in General Fund revenue.*** When the state experiences a TABOR surplus, an increase in General Fund revenue increases the TABOR refund obligation by an equal amount. In this situation, the same amount of General Fund revenue is available for state spending or saving. When the state is not experiencing a TABOR surplus, an increase in General Fund revenue increases available revenue for the state to spend or save.

***Decrease in General Fund revenue.*** When the state experiences a TABOR surplus, a decrease in General Fund revenue decreases the TABOR refund obligation by an equal amount. In this situation, the same amount of General Fund revenue is available for state spending or saving, unless revenue is decreased below the TABOR limit. When the state is not experiencing a TABOR surplus, a decrease in General Fund revenue decreases available revenue for the state to spend or save.