MEMORANDUM

TO Joint Budget Committee Members
FROM JBC Staff
DATE February 18, 2020
SUBJECT Potential Legislation

This memo lists bills concepts scheduled for the JBCS’s consideration 02/18/20. Each individual bill or memo has page numbers but also a packet page number to help navigate the whole document. The page numbers below refer to the packet page number.

JBC MEMBER BILL CONCEPTS FOR CONSIDERATION

Simplify severance tax system (Member: Sen. Rankin/Staff: Kemm) ................................................................. NA

REQUESTED PLACEHOLDERS AND BUDGET BALANCING BILLS

Increase General Fund reserves to the national average of 7.5 percent (Kampman) .................................1
STATE OF COLORADO FINANCIAL RESERVES
Proposal to the Joint Budget Committee
February 6, 2020

Dave Young
Colorado State Treasurer

Lauren Larson
Executive Director
Treasurer Young
Importance of Reserves in State Finance
Saving for a Rainy Day

26 states could cover a full year of revenue declines solely with reserves on hand
Coverage by reserves of revenue decline in recession scenario

Warning: Colorado has fallen below national average for rainy day funds
Revenue declines: Recessions hit multiple budget years

General Fund Revenue Compared to Pre-Recession Levels
($ millions)

<table>
<thead>
<tr>
<th></th>
<th>Pre-Recession GF Revenue</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Cumulative Shortfall ($)</th>
<th>Cumulative Shortfall (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>6,521 (FY01)</td>
<td>(984)</td>
<td>(1,082)</td>
<td>(795)</td>
<td>(400)</td>
<td>(3,261)</td>
<td>-50%</td>
</tr>
<tr>
<td>2008</td>
<td>7,743 (FY08)</td>
<td>(1,003)</td>
<td>(1,301)</td>
<td>(678)</td>
<td>(27)</td>
<td>(3,009)</td>
<td>-39%</td>
</tr>
</tbody>
</table>
Cost increases: Recessions drive increased caseload and enrollment over multiple budget years

Note: Light blue bars indicate a period of economic recession.

Source: LCS Memo, “Fiscal Strategies for Budget Shortfalls” March 2019
Reserves Package in FY 2020-21 Budget

1. Increase General Fund reserves to national average ($31.4 million)
2. Pay back paydate shift ($75 million)
3. Increase State Education Fund balance (additional $12 million to reach $152 million)
4. Propose statutory tools for responding to and recovering from a downturn

$118M <1% GF
Increase General Fund Reserves

1. Increase General Fund reserves to national average ($31.4 million)
   - from 7.25% to 7.5% of expenditures
   - National average now 7.6% (+$12.5 million)
   - Base-building (vs one-time)
Pay back paydate shift

2. Pay back paydate shift ($75 million)

- Accounting deferrals as one-time tools
- SB 03-197 - $89.4 million to defer state employee pay across fiscal years
- Without these one-time tools available, the State is less prepared to manage the next recession
- One-time funds, scaleable
Increase State Education Fund Balance

3. Increase State Education Fund balance (additional $12 million to reach $152 million)

- Requires +$12 million in one-time funds
- Buffer against forecast swings
- Increases needed as Total Program grows over time
Propose statutory tools

4. A legislative package for responding to and recovering from a downturn

- Withdrawal Rules - ensure spend down over 3 years
- Replenishment Rules - glide path back up after a recession
- Deposit Rules - auto savings as a default
- Fund Size Rules - based on Colorado’s revenue volatility and economy
Most states have a separate fund to hold reserves called the Rainy Day Fund.

Source: https://www.pewtrusts.org/-/media/assets/2017/04/when-to-use-state-rainy-day-funds.pdf
Rainy Day Funds: Deposit and Withdrawal Rules in Other States

Massachusetts: capital gains revenue and all one-time legal settlements >$10 million are deposited into the reserve fund.

Arizona, Michigan, and Indiana: base their reserve levels on personal income growth.

Texas: 75% of all severance tax revenue (above the benchmark year 1987) is transferred into the reserve fund.
On-going study to determine the appropriate funds in reserves, based on Colorado’s economy

Preliminary estimates expected Summer 2020
Colorado compared to other states:

- High volatility
- Low reserves
State Education Fund
State Education Fund and School Finance

- **State Education Fund**: One third of one % of taxable income + interest on balance 6%
- **Public School Fund**: FML Revenue + Permanent Trust Fund Interest + Marijuana Sales Tax Revenue + State Audit Rec. 2%
- **General Fund**: Individual income taxes + corporate income taxes + sales and use taxes 55%
- **Local Share**: Property and specific ownership taxes 37%

**K-12 Funding**
- Total Program + Categoricals
- $7.23 billion*

*K-12 Funding amount from FY 2018-19*
State Education Fund

Annual Percent (%) Change in State Education Fund Revenue
Revenue includes Amendment 23 Diversion & Interest (Excludes General Fund Transfers)

Source: Office of the State Controller
Projected revenue for FY 2019-20 and FY 2020-20
State Education Fund Buffer

State Education Fund Ending Balance Over Time

Source: Office of the State Controller
Projected revenue for FY 2019-20 and FY 2020-20

Average Ending Balance (excludes outlier years)
Questions?

FY 2020-21 Budget Reserves Package

1. Increase General Fund reserves to national average ($31.4 million)
2. Pay back paydate shift ($75 million)
3. Increase State Education Fund balance (additional $12 million to reach $152 million)
4. Propose statutory tools for responding to and recovering from a downturn