State Revenues Grow for 2013:
Belt Tightening is Over, It's Time for Wise Investments

Summary

Legislators will have $924.3 million more General Fund dollars to allocate to public investments in Fiscal Year 2013-14 than they appropriated for the current year, FY 2012-13. The Legislative Council staff increased the 2013-14 General Fund estimate based on three changes since the December 2012 projections: Congress adopted the American Taxpayer Relief Act of 2012, threatened federal cuts calls called sequestration went into effect, and Colorado's economic recovery is much stronger than predicted. This memo includes a brief summary the recent Legislative Council revenue forecast, an overview of sequestration's impact on state revenue, and discussion of Colorado's economic indicators. Colorado is now in position to change course from budget cutting to making investments that improve Colorado's economic future.

Key Points

- $924.3 more General Fund in FY2013-2014 than appropriated in FY 2012-13
- FY 2012-2013 General Fund revenue estimate was revised upward by $76 million from the amount expected in December and the FY2013-14 estimate was revised upward by $194 million.
- The Federal Fiscal Cliff Deal in December 2012 will have a net effect of $187 million more dollars to Colorado's general fund revenue throughout the coming year.
- The Colorado economy is showing some of the quickest recovery rates in the country. Real estate markets and consumer spending in Colorado show promising signs. Although there are still concerns of global economic malaise, particularly in Europe and China, and the drag that the sequestration cuts will have on the economy, the Colorado economy is expected to show strong growth in the next few years.
- The Sequestration cuts are projected to lower GDP growth by 1 percent, from 2.8 percent to 1.8 percent.
- Pursuant to House Bill 12-1388, the $848 surplus will be transferred to the State Education Fund at the end of FY 2012-13
- In total, the General Fund will provide $1.77 billion in new revenue for the state budget in FY 2013-14 ($924.3 million plus $848 million transfer to State Education Fund).

General Fund Revenues

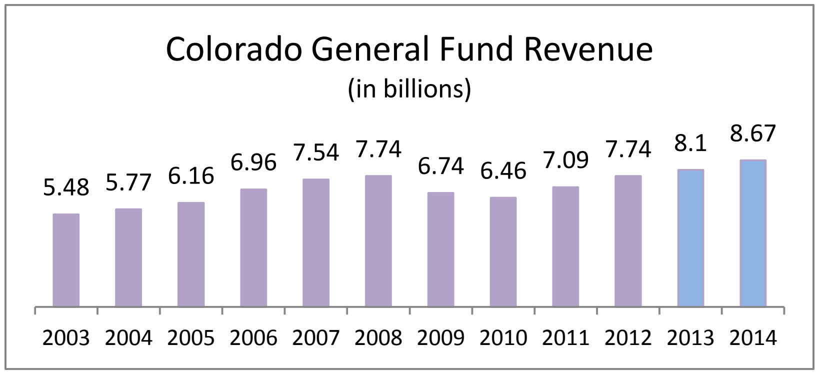
(in millions)	FY 2012-13	Percent Increase	FY 2013-14	Percent Increase
General Fund	8,102.6	4.7%	8,669.9	7.0%
Cash Funds	2,537.6	-1.0%	2,712.9	6.9%

FY 2013-14 revenue is expected to be 7 percent higher than FY 2012-13. This estimate is $194.3 million higher than was expected in the December forecast because of robust economic growth and increased revenue from the American Taxpayer Relief Act. FY 2012-13 is expected to be 4.7 percent higher than the previous year. FY 2012-13 revenue was revised $76.7 million higher than the December estimates. Below is a breakout of the increases by source:

- Individual Income Tax collections will increase 4% for FY 2012-13 and 6.3% for FY 2013-14
- Corporate Income Tax collections will increase 6.6% for FY 2012-13 and 24.6% for FY 2013-14
- Sales and Tax revenue will increase 6.2% for FY 2012-13 and 5.2% for FY 2013-14

Cash Funds

Cash fund revenue subject to TABOR will amount to $2.71 billion in FY 2013-2014, which represents a 6.9 percent increase from last year. The increase is attributable to rebounding severance tax revenue from increasing natural gas prices.



Factors Resulting in Changes

The American Taxpayer Relief Act of 2012

The federal compromise at the end of 2012 on the fiscal cliff included a number of revenue-related adjustments. They include corporate income tax credits, tax rates, estate tax credits, and unemployment benefits. Based on a memo prepared by Legislative Council staff on February 28, 2013, the American Taxpayer Relief Act will generate $160 million more General Fund Revenue for Colorado ($110 million from Corporate Income taxes and $50 million from individual income taxes) in FY 2013-14. It is also estimated that the act will increase FY 2012-2013 revenue by $27 million dollars. Over half of the increased amounts are due to the expiration of one federal corporate income tax provision which allows for an accelerated rate of depreciation on investments. If this provision is extended, the $110 million increase in Corporate Income taxes will be reduced by $105.7 million.

Federal Sequestration

Automatic spending cuts known as sequestration began in March. Initially adopted as a tool to force Congress to address the long-term deficit, the across the board budget reductions became policy when lawmakers were unable to reach agreement on a comprehensive budget reduction package in the first few months of 2013. Reductions in federal spending will create a drag on the Colorado economy as consumers and businesses react to lower levels of federal spending. Legislative Council predicts that GDP will grow by 1.8 percent in 2013. Without the sequester cuts, GDP growth would have been estimated at 2.8 percent. In addition, sequestration cuts, particularly non-defense cuts, will fall most heavily on programs that benefit low and medium income Coloradans, potentially harming robust economic growth.

Economic Growth

Growing personal income, sales, and housing prices are signs of healthy economic growth for the future. Colorado job growth since the recession has outpaced the national average, ranking 4th best in the country post-recession according to the Office of State Planning and Budgeting, and the unemployment rate in Colorado fell to 7.3% in January. Of the $194 million dollar upward revision of revenue in FY 2013-14 since the December estimates, roughly $34 million can be attributed to the vibrant economic forecast.

Time to Repair the Path to Economic Prosperity

For the past 5 years, the negative revenue trends have forced decisions to back pedal on commitments to schools, universities, and other important economic drivers. These latest estimates tell a different story. They provide an opportunity to refocus our growing public resources in ways that build more economic stability through targeted investments that benefit all Colorado families and communities. We can now afford to begin to repair the foundation of our economy by reimbursing those hardest hit by the economic storm of the past 5 years.

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