



4201 East Arkansas Avenue, Room 262  
Denver, CO 80222

MEMORANDUM

TO: Transportation Commission  
FROM: Scott Richrath, Chief Financial Officer  
DATE: January 22, 2015  
SUBJECT: Senate Bill 09-228 Transfer Scenarios for FY2015-16 and FY2016-17

Purpose

This memorandum summarizes the December 22, 2014 forecasts from the Governor's Office of State Planning & Budget (OSPB) and Legislative Council (LC) regarding potential Senate Bill (SB) 09-228 transfers for FY2015-16 and FY2016-17.

Action

Information only

Summary of Key Details

- Currently, OSPB and LC both forecast an SB09-228 transfer of 50% to CDOT for Fiscal Year FY2015-16.
- As with the September 2014 forecasts, OSPB and LC diverge in their forecasts of FY2016-17 transfers. OSPB again forecasts a 50% transfer to CDOT stemming from SB09-228; LC forecasts 0%.
- The agencies also diverge in their forecasts of TABOR refunds in the coming calendar year, with OSPB estimating \$186.5 million to be refunded for FY2015-16 and \$269.2 million to be refunded for FY2016-17, both of which would cut SB09-228 transfers by 50%. LC estimates \$120.3 million to be refunded for FY2015-16, creating a 50% transfer, and \$620.4 million to be refunded for FY2016-17, which would exceed the 3.0 percent threshold and eliminate SB09-228 transfers for FY2016-17.

Background and Details

On December 22, 2014, the OSPB and LC produced forecasts of TABOR refunds and their ramifications on potential SB09-228 scenarios for FY2015-16 and FY2016-17, detailed below.

**Office of State Planning & Budget**

TABOR revenue is projected to exceed the Referendum C cap by \$196.8 million in FY2014-15, \$186.5 million in FY2015-16, and \$269.2 million in FY2016-17, meaning that a refund to taxpayers will occur for each of those years under this forecast, unless voters allow the State to retain the revenue. Under current law, as a result of the TABOR refunds in FY2015-16 and FY2016-17, SB09-228 transfers will be reduced by half.

The projected TABOR refunds in FY2015-16 and FY2016-17 represent an amount equal to 1.8 percent and 2.5 percent of General Fund revenue, respectively. This means that the SB09-228 transfers for transportation will be reduced by half in those years - from \$206.2 million to \$103.1 million in FY2015-16, and from \$217.0 million to \$108.5 million in FY2016-17 under this forecast. The transfers are suspended in full if there is a TABOR refund in excess of 3.0 percent of total General Fund revenue.

Under this forecast and current law, in FY2014-15, revenue above the Referendum C cap will be refunded through the State Earned Income Tax Credit to qualified taxpayers and the sales tax refund to all taxpayers. In FY2015-16, revenue above the Referendum C cap will be refunded through the sales tax refund. In FY2016-17, the refund will occur through a temporary income tax rate reduction and the sales tax refund.

Colorado's economy overall continues to show momentum and OSPB expects growth to continue at its recent pace. Unemployment dropped markedly in 2014. In many areas of the state, particularly along the northern Front Range, unemployment rates have fallen to close to their lowest levels during the last expansion. Still, unemployment remains elevated in other areas where job growth is slower. The national economy's expansion continues to show more momentum and on a more widespread basis. Improvements in the labor market are particularly noteworthy. Many parts of the global economy continue to struggle, however.



### **Legislative Council**

According to LC, both the Colorado and national economies will build momentum throughout the forecast period. Colorado will continue to outpace the national economy with more job creation, a tighter labor market, and a stronger housing market. This improvement is beginning to put upward pressure on wages that will continue through 2015. Colorado's economic growth has been driven by the northern Front Range and tourist economies, but some areas of the state are lagging behind. Overall, LC presents a more optimistic economic forecast than OSPB.

LC believes that lower gas prices will increase consumer spending, which is already on the rise due to better economic conditions in Colorado and the nation. However, this could be a drag on oil and gas companies in Colorado, reducing revenue. LC believes that oil and gas activity will rebound from the FY2015-16 decline, increasing for FY2016-17, and thereby increasing severance tax revenue.

The five-year block of transfers to the Capital Construction Fund (CCF) and Highway Users Tax Fund (HUTF) required by SB09-228 is expected to begin in FY2015-16. However, the size of the TABOR surplus will cut the transfers in half during FY2015-16, to an estimated \$25.6 million and \$102.5 million to the CCF and the HUTF, respectively. Because the large estimated TABOR refund of \$620.4 million in FY2016-17 is expected to exceed 3.0 percent of the General Fund revenue, LC projects a zero transfer to the HUTF.

### **Division of Accounting and Finance**

Due to both OSPB and LC creating two-year forecasts only, and with SB09-228 transfers taking place over five years, Department Staff has created an independent analysis for various economic circumstances over the next five fiscal years (see Attachment 1). The DAF recommended baseline scenario, corresponding with the OSPB forecast, projects a \$103 million transfer to CDOT (10% to Transit) in FY2015-16 and a \$109 million transfer (10% to Transit) in FY2016-17, with no transfer in out years.

### **Key Benefits**

N/A

### **Options and Recommendations**

N/A

### **Next Steps**

In March, when OSPB and LC will produce new revenue forecasts, Department Staff will bring the Transportation Commission new TABOR forecasts and potential SB09-228 scenarios for FY2015-16 and FY2016-17.

### **Attachments**

Attachment 1: Potential SB09-228 Transfer Scenarios for Five Years Beginning with FY2015-16  
Attachment 2: SB09-228 Transfer Algorithm in the Long-Term Revenue Model



Attachment 1: Senate Bill 09-228 Transfer to HUTF

| Fiscal Year  | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|--|---------|---------|---------|---------|---------|
| <b>RECOMMENDED SCENARIO</b> (OSPB with conservative out years) |         |         |         |         |         |
| Prior Year Personal Income Growth rate, 1st Trigger            | 6.3%    | 7.1%    | 8.7%    | 8.3%    | 7.9%    |
| TABOR refund as % of General Fund Revenue, 2nd Trigger         | 1.8%    | 2.5%    | 5.0%    | 4.4%    | 5.1%    |
| Allowable Transfer Rate: 2%, 1% or 0%                          | 1%      | 1%      | 0%      | 0%      | 0%      |
| Senate Bill 09-228 Transfer to HUTF, millions                  | \$103   | \$109   | \$0     | \$0     | \$0     |
| <b>OSPB-MOODY's HYBRID SCENARIO</b>                            |         |         |         |         |         |
| Prior Year Personal Income Growth rate, 1st Trigger            | 6.3%    | 7.1%    | 8.4%    | 8.1%    | 7.7%    |
| TABOR refund as % of General Fund Revenue, 2nd Trigger         | 1.8%    | 4.1%    | 13.9%   | 2.9%    | 2.3%    |
| Allowable Transfer Rate: 2%, 1% or 0%                          | 1%      | 0%      | 0%      | 1%      | 1%      |
| Senate Bill 09-228 Transfer to HUTF, millions                  | \$103   | \$0     | \$0     | \$105   | \$110   |
| <b>STRONG NEAR-TERM RECOVERY SCENARIO</b>                      |         |         |         |         |         |
| Prior Year Personal Income Growth rate, 1st Trigger            | 6.3%    | 8.1%    | 8.7%    | 7.0%    | 7.3%    |
| TABOR refund as % of General Fund Revenue, 2nd Trigger         | 1.8%    | 4.2%    | 3.7%    | 2.5%    | 2.0%    |
| Allowable Transfer Rate: 2%, 1% or 0%                          | 1%      | 0%      | 0%      | 1%      | 1%      |
| Senate Bill 09-228 Transfer to HUTF, millions                  | \$103   | \$0     | \$0     | \$105   | \$110   |
| <b>TWO-YEAR SLUMP SCENARIO</b>                                 |         |         |         |         |         |
| Prior Year Personal Income Growth rate, 1st Trigger            | 6.3%    | 0.6%    | 1.0%    | 6.5%    | 8.1%    |
| TABOR refund as % of General Fund Revenue, 2nd Trigger         | 1.8%    | 3.9%    | 5.4%    | 6.5%    | 8.5%    |
| Allowable Transfer Rate: 2%, 1% or 0%                          | 1%      | 0%      | 0%      | 0%      | 0%      |
| Senate Bill 09-228 Transfer to HUTF, millions                  | \$103   | \$0     | \$0     | \$0     | \$0     |
| <b>LOW OIL PRICE SCENARIO</b>                                  |         |         |         |         |         |
| Prior Year Personal Income Growth rate, 1st Trigger            | 6.3%    | 6.7%    | 8.7%    | 8.3%    | 7.9%    |
| TABOR refund as % of General Fund Revenue, 2nd Trigger         | 1.8%    | 4.2%    | 5.0%    | 4.4%    | 5.1%    |
| Allowable Transfer Rate: 2%, 1% or 0%                          | 1%      | 0%      | 0%      | 0%      | 0%      |
| Senate Bill 09-228 Transfer to HUTF, millions                  | \$103   | \$0     | \$0     | \$0     | \$0     |

In the figure above, green shading denotes percentages that trigger transfers and pink shading denotes percentages that block transfers. Yellow shading denotes percentages that trigger transfers at the reduced level of 1% rather than the full level of 2%.

In all years and in all scenarios, a full 2% transfer never triggered. A 1% transfer is triggered in fiscal year 2015 under all of the economic scenarios.



## Forecast Scenarios

Moody' Analytics currently produces nine different scenarios for most of it's economic forecasts, from which CDOT chose five as representing the range of variance that can be expected in these forecasts. They are:

|                            |   |
|----------------------------|---|
| <i>Recommended</i>         | The Colorado economy sustains current growth for at least another year with the assumption that oil prices maintain their current low level. This scenario was discussed as the most likely staff scenario for presentation to the Transportation Commission in January 2015. |
| <i>OSPB-Moody's Hybrid</i> | The economic conditions that are, in Moody Analytics' opinion, most likely to prevail past the current year.  |
| <i>Near-term recovery</i>  | The US economy resumes a consumer and export-driven growth rates that return it, over the next 18 months, to a point close to full employment.  |
| <i>Low oil prices</i>      | The baseline scenario, modified with the assumption that oil prices continue at their current low level through 2015 and recover in 2016.   |
| <i>Two-year slump</i>      | The US economy returns to no-growth for 2015 and 2016, followed by a recovery in 2017 and 2018.   |



Attachment 2: Senate Bill 09-228 Transfer Algorithm in the Long-Term Revenue Model

