



FACT SHEET HB07-1302 Representative Buescher

Creating a Colorado Kind-of Rainy Day Fund

Details of the Bill

HB 07-1302 increases the statutory general fund reserve amount up to 8% in increments of .5%. Beginning in FY 07-08 the reserve would increase .5% over the prior years reserve amount as long as state general funds were sufficient to make a transfer to the HUTF of an amount equal to 10.3333% of state sales and use tax revenue. The .5% increases would stop when the reserve amount was equal to 8% of general fund spending.

Background

During economic downturns, state general fund revenue falls, creating problems for maintaining services to citizens. Ironically, it is during these economic downturns that demand for some public services, like Medicaid, cash assistance and utility assistance, increase.

Most states create a fund for the express purpose of offsetting service cuts during recessions. Colorado, however, is one of 5 states that do not have a Rainy Day Fund. Colorado's protection against recessionary cuts comes in the form of a statutory reserve. Currently and during the last recession, the amount of the reserve was equal to 4% of state general fund spending.

During the last recession, however, the reserve was overwhelmed. State general fund revenue fell nearly 17% or \$1.505 billion, from FY 2001 to FY2003 with \$1.373 billion of the reduction coming in the first year. The statutory reserve for FY 2001, the first year of the recession was \$214 million. The woefully inadequate reserve meant severe cuts in services and raids on cash fund balances.

HB07-1302 creates a Colorado kind-of Rainy Day fund. Its provisions would double the amount of reserve retained by the state. The reserve increase is capitalized by money that currently couldn't be used for program funding because of the 6% limit. It sets aside more money for protecting services during bad economic times without having to create a true Rainy Day Fund. In many ways, the reserve increase is preferable to a Rainy Day Fund. The reserve is more flexible, allowing the Legislature to determine when and how money from the reserve should be used. It can be changed by the Legislature depending on economic conditions and the changes can be enacted without a supermajority requirement or a popular vote. And, it does not further clutter our Constitution.

Recommendation

The Colorado Fiscal Policy Institute supports HB07-1302. While COFPI would prefer to see the state establish a higher reserve amount, it is supporting HB07-1302 as an important step in the right direction. This bill will go a long way in protecting programs from cuts during economic downturns and is a vast improvement over prior Rainy Day Fund proposals.