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Legislative Update: March 20, 2017



With March revenue forecast in hand, legislators get down to business on state budget

The Colorado legislature took an important step toward crafting a budget when the Joint Budget Committee (JBC) heard the March 2017 revenue forecast on St. Patrick's Day. This forecast is important because the JBC uses it in creating the "Long Bill," the state's overall budget.

In preparing for that task, the JBC receives information from two different departments: the governor's [Office of State Planning and Budget](#) (OSPB) and the [Legislative Council Staff](#) (LCS). Both present a picture of the state's future revenues. Typically, the groups have slightly different views, and this year was no different. One thing both groups agreed on, however, is that the process of crafting a balanced budget this year will be very challenging.

Henry Sobanet, director of the OSPB, projects that legislators will face a budget "gap" of \$696 million – "gap" being a gentle term for the gulf between revenue and required expenses. **Natalie Mullis**, chief economist at LCS, and her staff peg the number at closer to \$273 million. The difference in those two numbers may seem like a lot, but keep in mind that the state General Fund is more than \$10 billion, so the difference is a small percentage of the General Fund. Since OSPB and LCS traditionally use slightly different figures and calculations in reaching their forecasts, it is difficult to compare them side by side. This OSPB table, however, clearly illustrates the expenditures that produce the budget gap.

Item	Amount (in millions)	Source of Requirement
K-12 New Enrollment and Inflation	\$370.3	State Constitution / State Statue
TABOR Rebate	\$135.1	State Constitution

Repay Budget Reserve from FY 2016-17	\$260.4	State Statute / Policy Goal
S.B. 09-228 Transportation and Capital Transfers	\$163.7	State Statute
New Medicaid Costs	\$141.8	Federal / State Statute
TOTAL	\$1,071.3	
Available New General Fund Revenue	\$374.7	
Minimum Funding Gap	\$696.6	

There is one additional element not fully accounted for in the forecasts. Due to mandates in the Colorado Constitution under the Gallagher Amendment, residential property is taxed at a rate lower than commercial property. Gallagher forces the state to maintain the ratio of property tax revenue at 45% for residential and 55% for commercial. In order to maintain this ratio, the state will have to lower the Residential Assessment Rate (RAR).

Currently, Colorado homeowners pay tax on approximately 7.9% of a home's assessed value. Starting in 2017-18, the RAR will drop to approximately 6.5%. The result of this downward move will be a reduction in statewide local property tax revenue, which means the state will have to backfill an estimated \$160 million for public education. That, of course, means the state will have to find that amount elsewhere to balance the budget. The Colorado Department of Local Affairs (DOLA) will officially set the RAR on April 15.

The JBC is expected to present the Long Bill in the next few weeks. CASB's advocacy team will provide an overview shortly after it is introduced.

Thanks to Todd Engdahl of Capitol Editorial Services for additional reporting on this update.

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