

STATE OF COLORADO

OFFICE OF THE GOVERNOR

136 State Capitol Building
Denver, Colorado 80203
(303) 866-2471
(303) 866-2003 fax



Bill Ritter, Jr.
Governor

August 23, 2010

The Honorable Mark Ferrandino
Chairman, Joint Budget Committee
Joint Budget Committee
Colorado General Assembly
200 E. 14th Avenue, Third Floor
Legislative Services Building
Denver, CO 80203

Dear Representative Ferrandino:

Today I present my plan to balance Colorado's General Fund budget for FY 2010-11 pursuant to Section 24-75-201.5, C.R.S. This plan is necessitated by the General Fund shortfall indicated in the Office of State Planning and Budgeting June 2010 economic forecast. The June 2010 OSPB forecast indicated the need to present a budget balancing plan totaling \$59.1 million in FY 2010-11. In addition to the \$59.1 million General Fund shortfall identified in the June 2010 OSPB forecast, the FY 2010-11 shortfall increased by \$67.2 million General Fund, excluding reserve adjustments, to account for the lower level of FMAP funding for Colorado Medicaid compared to the FY 2010-11 Long Bill appropriation (H.B. 10-1376). Together this shortfall (including the \$1.3 million reserve adjustment due to FMAP) totals \$127.6 million in FY 2010-11 to fulfill the 2.0 percent General Fund reserve requirement established in Section 24-75-201.5, C.R.S.

This August 2010 Budget Balancing Plan provides balancing measures totaling \$136.4 million General Fund for FY 2010-11. The difference between the \$127.6 million total shortfall and the \$136.4 million Budget Balancing Plan initiatives less the increased FMAP General Fund expenditure, enables us to slightly exceed the 2.0 percent reserve requirement by \$8.9 million.

In total, this Plan results in an estimated ending General Fund reserve balance of \$149.6 million, or 2.1 percent, for FY 2010-11.

June Forecast for FY 2009-10

The OSPB June 2010 revenue forecast estimated a \$21.9 million General Fund ending reserve for FY 2009-10. This equates to approximately 0.3 percent of FY 2009-10 General Fund expenditures and obligations – a precarious balance given the possibility of a statutorily authorized over-expenditure in entitlement programs or a variance in revenue compared to the forecast. As a result of this concern the State Controller and the Office of State Planning and Budgeting as authorized in statute directed the delay of the last two weeks of FY 2009-10

Medicaid payments until FY 2010-11 in order to prevent a General Fund deficit. This payment delay was estimated to free up \$38.0 million General Fund in FY 2009-10 to cushion the estimated ending reserve, thus protecting against a General Fund deficit and a violation of the Colorado Constitution.

Including the \$38.0 million Medicaid payment delay, the June 21 OSPB revenue forecast indicated a FY 2009-10 shortfall of \$72.7 million relative to the 2.0 percent General Fund reserve requirement (of \$132.6 million) authorized by Section 24-75-201.1 (1) (d) (XI), C.R.S. The revenue estimate left an estimated ending General Fund FY 2009-10 balance of \$59.9 million.

FY 2010-11 General Fund

June 2010 Forecast

As noted above, the June 2010 forecast for FY 2010-11 provided for a calculated beginning fund balance of \$59.9 million. To this amount, the forecast adds \$7,129.6 million in estimated General Fund revenue for a total available General Fund of \$7,189.6 million and the anticipated authorized General Fund spending of \$7,109.1 million. The authorized spending includes recognition of the FY 2010-11 restoration of \$38.0 million General Fund estimated in June for Medicaid deferred payments in FY 2009-10. The variance between available General Fund resources and required General Fund spending leaves an ending General Fund reserve of \$80.5 million, which sum is equal to a 1.15 percent General Fund reserve. The 4.0 percent General Fund reserve requirement per Section 24-75-201.1 (1) (d) (III), C.R.S. is \$279.1 million; per Section 24-75-201.5, C.R.S. the Executive is to present a plan providing for a 2.0 percent General Fund reserve. The difference between the estimated available ending General Fund reserve (\$80.5 million) and the required 2.0 percent reserve (\$139.6 million) was estimated to be \$59.1 million.

Changes since June 2010 Forecast

The June 2010 forecast was based on revenue data through most, but not all, of FY 2009-10. Unanticipated strength in June tax receipts recorded after the June 2010 forecast and current estimates of General Fund reversions allows the State to end FY 2009-10 with approximately \$136.8 million in the General Fund reserve. This change is attributable to higher than forecasted individual and corporate income taxes, offset by slightly lower excise taxes. The \$136.8 million estimated FY 2009-10 ending fund balance becomes the beginning fund balance for FY 2010-11.

Because Colorado's actual allocation from the enhanced FMAP extension authorized in H.R. 4213 is less than the amount budgeted in the FY 2010-11 Long Bill, the state needs to address an additional budget gap of \$67.2 million. This General Fund need, plus the associated required reserve adjustment, is attributable to the relatively lower federal FMAP available in FY 2010-11 as compared to the amount budgeted in the FY 2010-11 Long Bill (H.B. 10-1376).

Current FY 2010-11 Shortfall

In June 2010, the OSPB forecast indicated available FY 2010-11 General Fund resources of \$7,189.6 million, including the beginning FY 2010-11 adjusted fund balance. Against this amount of General Fund resources, \$7,109.1 million was estimated for authorized spending, including recognizing the estimated \$38.0 million General Fund for Medicaid delayed payments, leaving a General Fund ending reserve of \$80.5 million, which is \$198.6 million short of the 4.0 percent reserve of \$279.1 million General Fund requirement, and \$59.1 million short of a 2.0 percent reserve required by Section 24-75-201.5, C.R.S.

To ensure that Colorado's budget remains balanced, this August FY 2010-11 Budget Balancing Plan provides \$136.4 million of budget balancing initiatives. These components include the following:

- **\$76.8 million** General Fund associated with an estimated change to the FY 2010-11 beginning balance compared to the June 2010 forecast assumptions.
- **\$6.2 million** in General Fund expenditure reductions.
- **\$53.4 million** General Fund associated with transfers into the General Fund.

The \$136.4 million of balancing initiatives, which includes the \$0.1 million reserve adjustment associated with the General Fund expenditure reductions, accommodates the increase of \$67.2 million General Fund needed in the Department of Health Care Policy and Financing budget to replace federal funds not available due to the lower enhanced FMAP extension recently passed in law.

With all components considered, my August FY 2010-11 Budget Balancing Plan results in an ending General Fund reserve of \$149.6 million or 2.1 percent of FY 2010-11 General Fund appropriations. This Budget Balancing Plan is discussed in more detail below.

Post June 2010 Forecast Revenue Change

Actual General Fund revenues came in approximately \$76.8 million higher than indicated in the June 2010 OSPB forecast of FY 2009-10 revenues. This estimate change results in a \$136.8 million beginning fund balance for FY 2010-11 compared to a \$59.9 million adjusted beginning fund balance assume in June estimates, a difference of \$76.8 million. It is important to note that until September 20th, the unaudited FY 2009-10 balance of the General Fund will not be known. Until that date, roll-forwards, reversions, post closing journal entries, and other factors could change the FY 2009-10 ending fund balance and the beginning FY 2010-11 balance. After September 20th and until the State Auditor issues an audit opinion in late December, audit adjustments could continue to change the FY 2009-10 ending balance of the General Fund. However, data in August is much closer to actual expenditures and revenues than the data used for the June forecast.

\$6.2 Million General Fund Expenditure Reductions

My Budget Balancing Plan contains \$6.2 million General Fund in FY 2010-11 General Fund expenditure reductions. These General Fund reductions include the following:

- \$4.9 million associated with a 1.0 percent personal services reduction statewide.
- \$1.3 million in reductions in the Department of Corrections. Included in these reductions is \$350,000 associated with utilities, \$250,000 associated with the Dress Out Program, \$250,000 associated with Parolee contract services, \$250,000 associated with Community Intensive Supervision Program contract services, \$100,000 associated with leased space, and \$89,100 net General Fund associated with a reduction of 20 private prison beds and a commensurate increase in lower-cost state beds at the Trinidad Correctional Facility.

This \$6.2 million General Fund expenditure reduction also results in an adjustment to the General Fund reserve requirement, realized as a benefit in the ending fund balance.

\$53.4 Million Transfers to the General Fund

My Budget Balancing Plan contains \$53.4 million General Fund in FY 2010-11 cash fund transfers to the General Fund. These transfers include the following:

- \$15.0 million from the Department of Local Affairs Local Government Mineral Impact Fund and \$5.0 million from the Local Government Severance Tax Fund.
- \$11.4 million from the Local Affairs Local Government Permanent Fund.
- \$9.4 million from the Higher Education Federal Mineral Lease Maintenance and Reserve Fund.
- \$9.0 million from the Medical Marijuana Program Cash Fund.
- \$3.5 million from the Secretary of State Cash Fund.

\$67.2 million General Fund Expenditure Increase

My Budget Balancing Plan contains a \$67.2 million General Fund increase in the Department of Health Care Policy and Financing relative to the FY 2010-11 appropriation. This increase is attributable to the phased-down amount in the enhanced FMAP extension recently passed in law compared to the full six months delay assumed in the FY 2010-11 Long Bill appropriation. This federal action will require the State to increase \$67.2 million General Fund and associated cash/reappropriated funds, to account for the decrease of \$71.5 million federal funds, compared to the financing of the Medicaid program assumed in the FY 2010-11 appropriation. This General Fund increase is fully balanced in this August Budget Balancing Plan.

Other Budget Management

Also note that I have restricted an additional \$30.0 million in the Local Government Severance Tax Fund and \$10.0 million in the Perpetual Base Account of the Severance Tax Trust Fund for FY 2010-11. Although a transfer of these funds to the General Fund is not requested at this time, these restrictions will ensure the State has access to these funds should future forecasts for FY 2010-11 indicate that additional budget balancing measures are necessary. Also note, a supplemental request will be submitted on November 1, 2010 to increase the appropriation for additional Medicaid expenditures in FY 2010-11 due to delayed payments in FY 2009-10.

Budget Shortfalls and Challenges

My Administration has balanced General Fund shortfalls of \$0.8 billion in FY 2008-09, excluding S.B. 09-279 transfers, \$2.2 billion in FY 2009-10, and \$1.3 billion in FY 2010-11. We've balanced the State General Fund budget while largely maintaining state services. We have used a host of measures, including strengthening tax code compliance, reducing tax credits and exemptions, transferring cash funds with excess balances into the General Fund, fee increases to finance programs otherwise funded with General Fund, reducing the amount spent on state personnel, and program reductions. Full balancing plans were presented in response to forecasted shortfalls. The past three years of my budget balancing measures have attempted to minimize the pain felt in programs while spreading the sacrifice across state programs. However, after three years of budget balancing plans, efficiencies, and reductions, very few options for General Fund budget balancing remain.

Base Medicaid caseload grew by 24 percent from FY 2008-09 to the FY 2010-11 (Long Bill) estimate. Colorado's assessed valuations, which are used in part for setting K-12 education local funding share, declined from \$96.2 billion in FY 2009-10 to \$88.7 billion in FY 2011-12, requiring more state funding backfill, at the same time that state General Fund revenues to fund K-12 were also declining.

Most of the State's funding is used for mandatory caseload areas (K-12 funding, Corrections and Medicaid caseload) and these areas are increasing despite limited State revenues. The Departments of Education, HCPF/Medicaid, Corrections/Public Safety/Judicial, Higher Education and Human Services together total 97.0 percent of Department General Fund spending. (All other state departments account for the remaining 3.0 percent of General Fund.)

Departments	FY 2010-11 Dept. GF Appropriations	Dept. % of State GF
K-12 Education	\$ 3,176,663,441	45.6%
HCPF/Medicaid	1,232,196,603	17.7%
DOC, Public Safety and Judicial	1,062,258,679	15.2%
Higher Education	644,870,589	9.3%
Human Services	639,803,262	9.2%
Other	<u>210,752,871</u>	<u>3.0%</u>
Total	\$ 6,966,545,445	100.0%

Colorado families and businesses continue to struggle in this global recession. Unemployment in Colorado hovered at 8.0 percent in July and more than 200,000 Coloradans received Unemployment Insurance from July 2009 to April 2010. Over 380,000 people in Colorado received food stamps in FY 2009-10, an increase of over 30 percent over the prior year. Medicaid enrollment is over 550,000 in FY 2010-11 and enrollment in the Children's Basic Health Plan is 85,000, both significant increases over prior years.

These are challenging times for State government. These budget balancing measures represent decisions that must be made in order to maintain a balanced budget for the State. My Administration will continue to balance the budget and will submit a balanced budget for FY 2011-12 on November 1, 2010. And should the September 20, 2010, revenue forecast demonstrate it is necessary, I will further re-balance FY 2010-11 with a Budget Balancing Plan on January 3, 2011.

While the budget and economic challenges continue, we continue to work hard to keep Colorado on the road to recovery. My Administration continues to work on the economic health of this State.

- I recently returned from an economic-development mission to Israel with the goal of generating increased investments, jobs, and research opportunities in Colorado.
- The Office of Economic Development and International Trade and the Governor's Energy Office each offer annual grant programs in excess of \$10M to local employers; these programs help businesses retain or train employees, buy new equipment and expand their premises.
- The Colorado Credit Reserve Program (S.B. 09-67) passed in 2009 as part of the Governor's Agenda. This program was meant to help small businesses gain access to capital, leveraging state dollars to help these businesses access private capital. Since it started operating in September of 2009, the program has registered 140 loans, leveraging over \$4 million in private investments and helping to create or retain 942 jobs.
- The Job Growth Incentive Act (H.B. 09-1001) provides an incentive for employers that move jobs to Colorado. Thus far, the program has helped generate over 800 new jobs. Furthermore, there are six to eight projects in the pipeline that could lead to 2,000 new jobs at some point in the near future, a good example of the type of demand we are seeing from the private sector.

For the second year in a row, CNBC has named Colorado the No. 3 state in the nation in which to do business. This moved Colorado up from the No. 5 in 2008, and was based on the workforce, business friendliness and quality of life. Forbes.com ranks Colorado No. 4 based on Colorado's expanding, educated workforce. The American Legislative Exchange Council reports that Colorado now ranks 2nd best of all 50 states in economic outlook.

If you have any questions about this request or about the budget in general, please do not hesitate to contact my Budget Director, Todd Saliman.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Ritter, Jr.", with a stylized flourish at the end.

Governor Bill Ritter, Jr.

Cc: Senator Moe Keller, Joint Budget Committee Vice-chairman
Senator Mary Hodge, Joint Budget Committee Member
Senator Al White, Joint Budget Committee Member
Representative Dickey Lee Hullinghorst, Joint Budget Committee Member
Representative Cheri Gerou, Joint Budget Committee Member
Speaker of the House Terrance Carroll
Senate President Brandon Shaffer
Mr. John Ziegler, Joint Budget Committee Staff Director
Mr. Todd Saliman, Director, Governor's Office of State Planning and Budgeting
Mr. Jim Carpenter, Chief of Staff, Governor Bill Ritter, Jr.
Mr. Don Elliman, Chief Operating Officer, Governor Bill Ritter, Jr.

FY 2010-11	A. June 2010 Forecast	B. June 2010 Forecast w/FMAP	C. August Balancing Plan	D. Change (C-A)
GF Available:				
Beginning Balance <1>	59,970,262	59,970,262	136,770,262	76,800,000
June 2010 Revenue Estimate	7,129,600,000	7,129,600,000	7,129,600,000	0
OSPB August CF Transfers	0	0	53,365,496	53,365,496
Total GF Available	7,189,570,262	7,189,570,262	7,319,735,758	130,165,496
GF Expenditures:				
Other GF Obligations	103,738,764	103,738,764	103,738,764	0
GF Appropriation <2>	6,966,545,445	6,966,545,445	6,966,545,445	0
August 23rd Budget Balancing Package GF Reductions	0	0	(6,174,400)	(6,174,400)
Medicaid FMAP Additional GF Required	0	67,182,763	67,182,763	67,182,763
Assumption on FY 2009-10 Medicaid Delay Payment Restoration	38,000,000	38,000,000	38,000,000	0
Transfers to Capital Construction	8,600,000	8,600,000	8,600,000	0
Other Expenditures (SB 09-264)	(7,800,000)	(7,800,000)	(7,800,000)	0
Total GF Expenditures	7,109,084,209	7,176,266,972	7,170,092,572	61,008,363
FY 2010-11 Ending GF Appropriations Reserve:				
FY 2010-11 4% of Appropriations Needed	279,133,451	281,820,762	281,573,786	2,440,335
FY 2010-11 Year-End General Fund Balance (Revenues less Expenditures)	80,486,053	13,303,290	149,643,186	69,157,133
FY 2010-11 GF Reserve Overage (Shortfall to 4.0% Reserve)	(198,647,398)	(268,517,472)	(131,930,600)	66,716,798
For Information Only: Estimated Reserve level Percent	1.2%	0.2%	2.1%	1.0%
For Information Only: Dollar Amount over (under) 2%	(59,080,673)	(127,607,091)	8,856,293	67,936,966

<1> Note an adjustment to the June 2010 forecasted ending fund balance for FY 2009-10.

<2> Note that the FY 2010-11 appropriation includes \$15.4 million General Fund reduction per H.B. 10-1383.