



Governor Bill Ritter's FY 2009-10 Budget Balancing Plan

January 27, 2010



Keeping the Budget Balanced

FY 2009-10

- The Legislature and Governor have already addressed a \$2.142 billion shortfall in FY 2009-10.
 - During the 2009 session the shortfall of \$1.552 billion General Fund was addressed for FY 2009-10.
 - On August 25, 2009 the additional shortfall of \$313.4 million General Fund identified in the June forecast for FY 2009-10 was addressed.
 - On December 1, 2009 the additional shortfall of \$276.3 million General Fund identified in the September forecast for FY 2009-10 was addressed.
- Today, the additional shortfall of \$47.5 million General Fund identified in the December forecast for FY 2009-10 is addressed.
- This will bring the total shortfall that has been addressed in FY 2009-10 to \$2.189 billion.



Keeping the Budget Balanced

FY 2010-11

- The Governor's FY 2010-11 balanced budget addresses a shortfall for the upcoming fiscal year of \$1.02 billion.
 - Maintains critical programs that promote job creation and economic growth.
 - Protects safety-net services that focus on the most vulnerable Coloradans.
 - Utilizes remaining Recovery Act funds to reduce impact on higher education.
 - Preserves pre-school and Full Day K programs for the youngest Coloradans.
 - Avoids \$255.6 million in increases that would normally be included in base budget.
 - Reduces General Fund expenditures by a net of \$708.6 million.
 - Modifies and temporarily suspends \$131.8 million in tax exemptions and credits.
 - Maintains a 2.2% statutory reserve of \$150.9 million.



Additional Shortfall Identified

FY 2010-11

- On February 15, 2010 the Governor will submit a plan to address an additional shortfall of several hundred million that was identified in the December 18, 2009 forecast.
 - The Governor will balance the budget to the lowest forecast.
 - The November FY 2010-11 budget request was based on the September Legislative Forecast.
 - The December forecast shows revenues are approximately \$170 million lower.
 - Assessed value and K-12 enrollment forecasts were also updated in December. These changes, combined with reduced revenues results in the State Education Fund (SEF) becoming insolvent in FY 10-11.
 - Extension of the federal enhanced Medicaid match is currently being discussed in Washington and could help FY 2010-11 balancing but is still uncertain.



Tough Choices

- 97.0% of Colorado's FY 2009-10 General Fund Long Bill appropriation is devoted to just five areas of service:
 - **43.3%, K-12 Education** is the largest component of the General Fund budget and was off limits when balancing in FY 2009-10 due to a required 5% General Fund increase.
 - **21.2%, Health Care Policy and Financing** provides services that are mostly entitlement programs that have a counter-cyclical relationship with the economy. When the economy goes down, Medicaid enrollments go up.
 - **9.0%, Human Services** are provided to the state's most vulnerable and highest risk populations such as those with developmental disabilities or mental illness, juvenile delinquents, and children who are the victims of abuse and neglect.
 - **14.7%, Corrections, Public Safety and Judicial** provide public safety services and staffing levels that were reduced during the last recession have still not been restored. Judicial staffing was increased pursuant to HB 07-1054.
 - **8.8%, Higher Education** is one of the last remaining areas of the budget where there continues to be budgetary flexibility and where funding has been temporarily maintained with federal stimulus funds.



Critical Services Protected

■ Public Safety

- **Corrections Facility Ratios** - Facility staffing is critical for the Department to maintain direct offender supervision in the 24/7 operations and effectively manage the offender population. During the budget cuts in 2003 and 2004, DOC cut 588 FTE, which has created serious staffing shortages that must be managed daily to assure public safety remains intact.
- **Senate Bill 91-94 Programs** – These services are judicial district based and provide alternatives to incarceration for pre-adjudicated and adjudicated youth. The programs reduce DYC admissions and the lengths of stay for youth already in the DYC detention system.
- **Parole and Community Ratios** – Maintaining staffing ratios in these areas is critical to public safety. Reductions in this area would hamper efforts to improve public safety and reduce recidivism.
- **Anti-recidivism Initiatives** – Beginning in FY 2007-08 the Governor has proposed three policy packages to improve public safety by reducing the rate at which offenders commit new crimes. No new reductions to these programs are proposed for FY 2010-11.



Critical Services Protected

■ Health Care

- **Breast and Cervical Cancer Program** - This program provides breast and cervical cancer screenings. Qualifying women with positive screening results are enrolled in Medicaid to receive treatment for their diagnoses.
- **Primary Care Fund** – This fund supports safety net providers such as community health centers. No reductions are requested from this fund in FY 2010-11.
- **Emergency Preparedness and Response** - This program was protected to ensure Colorado can quickly and effectively respond to a public health emergency and is the lead office in the state's H1N1 Flu response efforts.
- **Children's Basic Health Plan** – This optional program provides services to 83,391 children in FY 2010-11 whose families have low incomes and was protected from enrollment freezes.
- **Local Public Health Support** - This funding represents state support for core local public health services and is critical to the overall funding for local public health agencies.

■ Education

- **Full Day Kindergarten** - Full Day K investments are protected to ensure the same number of kindergarten slots remain available for Colorado's children.
- **Colorado Preschool Program** – Many gains have been made to ensure early childhood education programs are available for those who need them. This plan protects those gains.
- **Financial Aid** - Protected total financial aid funding three-fourths of which is need based. These funds help keep higher education affordable by providing grants to eligible students.



Critical Services Protected

■ Human Services

- **Developmental Disabilities** – Community based DD services continue to be protected. There will be no reduction in the number of available slots at the community level. No additional unit closures at the regional centers are proposed.
- **Mental Health** - Community based mental health services were protected. There will be no reduction in the number of medically indigent individuals served. No additional unit closures at the mental health institutes are proposed.
- **Senior Services** - No reductions to these services which include congregate nutrition, meals-on-wheels, transportation, in-home care, ombudsman representatives, legal support and elder abuse prevention.

■ Local Colorado Communities

- **Direct Distribution Severance Funds** – These allocations provide direct funds to energy impacted communities, which are spent by the communities at their discretion.
- **Motor Vehicle Offices** – DMVs will not be shuttered. Request that the funding source for the DMVs once again be changed to the HUTF for two more years.
- **Office of Civil Rights** - Preserved the Division's federal fund eligibility and minimized service reductions.



Balancing the Additional Shortfall for FY 2009-10

Balancing Action	Balancing Fiscal Impact
March 1, 2010 Exemption Implementation	\$18,770,000
School Loan Interest Payments	\$3,089,459
Higher Education Governing Boards	\$5,500,000
Department of Corrections Caseload	\$9,642,835
Department of Corrections ARRA Refinance	(\$1,500,000)
FML Maintenance and Reserve Fund	\$4,326,389
Severance Tax Forecast	\$4,800,000
Anschutz Medical Campus COP Refinance	\$4,196,981
Maintain 2% Reserve	\$272,857
Total	\$49,098,521



Balancing the Additional Shortfall for FY 2009-10

- **Tax Exemptions** – House bills HB 1189 through HB 1200 reflect modifications to existing Colorado excise and income tax exemptions and credits as included in the Governor’s FY 2009-10 and FY 2010-11 budget balancing plans. These bills are projected to allow the State to retain \$18.8 million and \$125.8 million, respectively during the next two fiscal years, beginning in FY 2009-10.
- **Corrections Caseload** – The Department of Corrections is requesting a decrease of \$6.5 million in new caseload reductions in FY 2009-10, based on actual and projected declines in the prison and parole populations, and decreases in the cost of medical services. The DOC is also requesting a one-time reduction of \$3.1 million associated with a decreased need for double-bunked beds at the Denver Women’s Correctional Facility and the Buena Vista Correctional Facility due to population trends.
- **ARRA Adjustment** – In December, the DOC requested a one-time refinance \$45.1 million in General Fund associated with the staffing and operation of prison facilities with federal American Recovery and Reinvestment Act dollars. Based on statewide balancing needs, OSPB is currently requesting to restore \$1.5 million General Fund and to reduce \$1.5 million in federal funds within the refinanced line item.



Balancing the Additional Shortfall for FY 2009-10

- **Interest Payments on School Loans** – In January 2010, as part of the State of Colorado Education Loan Program, the State issued Tax and Revenue Anticipation Notes (ETRAN) to make interest-free loans to certain Colorado school districts. These notes were issued after the publication of the December 18, 2009 OSPB forecast. Based on actual January 2010 issuance data OSPB now expects that interest payments on school loans will be \$3,089,459 less than estimated in the December 18, 2009 forecast.
- **Refinance Certificates of Participation** – Anschutz Medical Campus Certificates of participation (COPs) to fund construction on the Colorado University's Anschutz medical campus were refinanced on December 9, 2009. \$4,196,981 Cash Funds will be deappropriated from the "Lease Purchase of Academic Facilities at Fitzsimons" and transferred from the Fitzsimons Trust Fund into the General Fund.
- **Severance Tax Grant Funds** – Based on updated severance tax forecasts, an additional \$4.8 million in Severance Tax grants will be withheld from distribution until June 30, 2010. This amount, in combination with previously recommended transfers and restrictions of Severance Tax funds, constitutes forecasted grant funds in FY 2009-10.



Balancing the Additional Shortfall for FY 2009-10

- **Institutions of Higher Education** – An additional General Fund reduction of \$5.5 million General Fund which will be completely backfilled with ARRA State Fiscal Stabilization Fund in FY 2009-10. This reduction is sought through reductions to the College Opportunity Fund's Fee-for-service contracts so there is no requested change in the stipend amount from the December 1, 2009 request. This results in no effective cut to the institutions in the current fiscal year. However, it will result in \$5.5 million less ARRA funding being available in FY 2010-11. This increases the effective reduction for higher education in FY 10-11 to \$61 million.
- **Higher Education Maintenance and Reserve Fund** – Transfers balance from the Higher Education Federal Mineral Lease Maintenance and Reserve Fund to the General Fund in the amount of \$4,326,389, under the authority of 23-19.9-102 C.R.S. (2009). Federal Mineral Lease bonus dollars are, in part, deposited into this fund. Current law allows a transfer of the balance of the funds when the Legislative Council forecast indicates that there is not enough General Fund revenue to maintain a 4% reserve.



Exemptions and Credits

- The balanced budget proposal includes the modification of 13 existing tax exemptions and credits. The changes below represent approximately 6% of the \$2.1 billion of existing exemptions and credits.

Exemption / Credit Considered	FY 2009-10 Fiscal Impact	FY 2010-11 Fiscal Impact	Implementation Date	Duration of Proposal
Suspend Exemption for Direct Mail Advertising	\$290,000	\$1,450,000	3/1/2010	Ongoing
Suspend Exemption for Industrial and Manufacturing Energy Use	\$9,600,000	\$48,000,000	3/1/2010	2.3 years
Eliminate Exemption for Non-Essential Food Containers	\$420,000	\$2,100,000	3/1/2010	Ongoing
Eliminate Exemption for Candy and Soft Drinks	\$3,580,000	\$17,900,000	3/1/2010	Ongoing
Suspend Exemption for Agricultural Compounds and Bull Semen	\$300,000	\$1,500,000	3/1/2010	3.3 years
Suspend Exemption for Pesticides	\$580,000	\$2,900,000	3/1/2010	3.3 years
Temporarily Limit Corporate Enterprise Zone Investment Tax Credit to \$250,000	\$0	\$4,450,000	1/1/2011	3.3 years
Revise Alternative Fuel Vehicle Credits	\$0	\$1,250,000	1/1/2011	Ongoing
Temporarily Limit Gross Conservation Easement Credits	\$0	\$13,000,000	1/1/2011	3 years
Elimination of Alternative Minimum Tax and Tax Credit	\$0	\$0	1/1/2011	Ongoing
Eliminate Software Exemption	\$3,000,000	\$20,000,000	3/1/2010	Ongoing
Enforce Sales Tax Collections for Online Purchases	\$1,000,000	\$5,000,000	3/1/2010	Ongoing
Temporarily Limit Net Operating Loss to \$250,000	\$0	\$8,250,000	1/1/2011	3 years
Total Impact of All Exemption and Credit Revisions:	\$18,770,000	\$125,800,000		