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Bill Ritter, Jr.
Governor
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Director

March 8, 2010

The Honorable Jack Pommer
Chairman
Joint Budget Committee
Colorado General Assembly
200 East 14th Avenue, 3rd Floor
Denver, CO 80203

Dear Representative Pommer:

Today I present the Final Budget Balancing Plan for FY 2009-10 and FY 2010-11, net of final caseload and financing adjustments for affected departments. While today's submission contains many final caseload initiatives, much of the data and most of the balancing proposals have been provided since February 18th when OSPB Director Todd Saliman provided the balancing overview. This Final Budget Balancing Plan is based on the General Fund revenue estimates outlined in the Legislative Council Staff December 2009 economic forecast, combined with OSPB estimates of General Fund expenditures and obligations.

My Final Budget Balancing Plan contains adjustments which provide \$20.2 million of net General Fund balancing initiatives in FY 2009-10. This Final Budget Balancing Plan also contains a *net* \$170.4 million of General Fund initiatives for FY 2010-11, including a \$140 million General Fund transfer to the State Education Fund.

My cumulative FY 2009-10 General Fund balancing initiatives subsequent to the 2009 Legislative Session total \$659.0 million. This leaves a General Fund reserve balance of \$153.8 million, \$21.8 million above the 2.0 percent General Fund statutory reserve requirement. This FY 2009-10 ending reserve becomes the FY 2010-11 beginning reserve, a level which is necessary to implement my FY 2010-11 General Fund revenue and expenditure balancing plan. My FY 2010-11 reserve ends with \$135.6 million, slightly above 2.0 percent of the S.B. 09-228 General Fund appropriations request funding level.

My FY 2009-10 budget follows \$2.2 billion General Fund of other budget and budget-balancing actions for FY 2009-10.

Summary of FY 2009-10 Budget Balancing

- The General Assembly balanced approximately \$1.55 billion General Fund in the 2009 Session. Note that this figure is refined and revised from earlier reports. This included

\$1.0 billion of General Fund expenditure reductions, \$389.3 million of General Fund revenue augmentation, and \$149.1 million of adjustments to the General Fund reserve.

- My August 25, 2009 balancing package was based on the revenues in the *June 2009* Legislative Council Staff economic forecast. The August 25, 2009 Budget Balancing Plan provided over \$313.4 million of balancing initiatives for FY 2009-10. This included \$260.0 million of General Fund expenditure reductions, and \$41.4 million of General Fund revenue augmentation, and \$11.9 million of General Fund reserve adjustments to calibrate the 2.0 percent reserve to the lower General Fund expenditure level.
- My December 1, 2009 balancing package responded to the revenue decrease in the *September 2009* Legislative Council Staff economic forecast. The December 1, 2009 balancing plan contained \$276.3 million General Fund of balancing initiatives. This balancing plan included a net \$203.7 million of General Fund reductions, \$68.5 million of General Fund revenue augmentation, and \$4.1 million of General Fund reserve adjustments to calibrate to the lower General Fund expenditure level.
- My January 27, 2010 plan balanced \$49.1 million of General Fund in response to the *December 2009* Legislative Council Staff economic forecast. This included \$32.1 million of General Fund revenue augmentation, \$16.7 million of General Fund expenditure reductions, and a \$0.3 million reserve adjustment to calibrate to the lower spending level.

Please note, the above figure do not reflect the \$45.4 million General Fund reduced in the Department of Corrections associated with a federal ARRA submitted in an H.B. 98-1331 request.

These FY 2009-10 balancing actions were done in concert with balancing the FY 2010-11 request. The FY 2010-11 balancing actions to-date include the following:

Summary of FY 2010-11 Budget Balancing

- The November 6, 2009 FY 2010-11 request reflected \$255.6 million General Fund in cost avoidance and contained \$1.02 billion of General Fund budget balancing initiatives. This request was based on the September 2009 Legislative Council Staff economic forecast.
- The January 4, 2010 budget package contained a statewide net decrease of \$5.4 million General Fund for FY 2010-11. The January 25, 2010 package of "regular" stand-alone budget amendments was not balancing-related; however, this package contained a small (\$0.2 million) net reduction in General Fund spending.

Final Budget Balancing Plan for FY 2009-10

The December 2009 Legislative Council Staff economic forecast results in a further General Fund budget shortfall for FY 2009-10 compared to FY 2009-10 General Fund expenditure

estimates. As noted above, significant balancing measures for FY 2009-10 have already been submitted on August 25, 2009, December 1, 2009, and January 27, 2010, totaling \$638.8 million. With this Final Budget Balancing Plan for FY 2009-10 which increase balancing initiatives by \$20.2 million General Fund, the FY 2009-10 General Fund budget-balancing requests submitted since the end of the 2009 Legislative Session totals \$659.0 million. Please note this figure excludes the \$45.4 million ARRA-based refinancing of the Department of Corrections in June 2009 for FY 2009-10.

My Final Budget Balancing Plan for FY 2009-10 contains General Fund initiatives totaling \$20.2 million. These initiatives include net General Fund expenditure reductions of \$19.6 million and General Fund revenue adjustments of \$0.2 million. General Fund revenue estimates which reduce General Fund revenue augmentation figures for tax credit/exemptions previously submitted on January 27th by \$3.2 million, an increase of \$3.4 million associated with tax code compliance initiatives. Finally, the Balancing Plan includes a General Fund reserve adjustment (\$0.4 million) which calibrates to the decrease in General Fund expenditures on which the reserve is calculated.

FY 2009-10 General Fund Expenditure Reductions: Final Budget Balancing Plan

My Final Budget Balancing Plan for FY 2009-10 contains \$19.6 million in net General Fund expenditure decreases. This \$19.6 million expenditure Balancing Plan includes General Fund expenditure reductions of \$34.3 million and General Fund increases of \$14.7 million. These changes are described below.

My Final Budget Balancing Plan for FY 2009-10 includes the following General Fund expenditure decreases which total \$34.3 million:

- \$29.1 million associated with ARRA enhanced FMAP adjustment applied to the Medicare Modernization Act payment that is typically 100 percent General Fund.
- \$4.1 million General Fund in the Department of Health Care Policy and Financing associated with Medicaid Premiums reduced caseload projections.
- \$0.9 million General Fund in the Department of Health Care Policy and Financing associated with reduced caseload projections for Medicaid Mental Health Community Programs.
- \$0.2 million for the Medicare Modernization Act State Contribution Payment which is reduced due to caseload projections.

My Final Budget Balancing Plan for FY 2009-10 includes the following General Fund expenditure increases totaling \$14.7 million:

- \$9.9 million General Fund associated with a cash fund correction to FMAP estimates in the Department of Health Care Policy and Financing.
- \$3.2 million General Fund in the Department of Human Services (DHS) and the Department of Health Care Policy and Financing associated with the Department of Human Services' NYC caseload increases.
- \$0.6 million General Fund associated with a technical correction to the statewide indirect cost financing in the Governor's Office.
- \$0.5 million General Fund in the Department of Health Care Policy and Financing associated with the Grand Junction Regional Center request in the Department of Human Services.
- \$0.4 million General Fund in the Department of Health Care Policy and Financing associated with a caseload adjustment affecting the Medicaid payment delay.
- \$0.1 million General Fund is associated with the General Fund expenditure fiscal estimates of the legislation related to tax credits/exemptions.

FY 2009-10 General Fund Revenue Adjustments: Final Budget Balancing Plan

The Final Budget Balancing Plan for FY 2009-10 contains net increases of \$0.2 million. This includes decreases of \$3.2 million to the estimated \$18.8 million of tax credit and exemption General Fund revenue enhancements which were submitted on January 27th. This reflects the changes in the tax credits and exemptions legislation for FY 2009-10 based on the February 10, 2010 estimates provided by Legislative Council Staff. Offsetting this decrease is a tax code compliance initiative that generates an increase of \$3.4 million General Fund in FY 2009-10.

The decreases in the tax credits and exemptions provide a net reduction of \$3.2 million to the January 27th General Fund revenue estimates, as follows:

- \$2.4 million lower estimates for Industrial and manufacturing energy use tax credits and exemption changes.
- \$2.2 million lower estimates for candy and soft drinks tax credits and exemption changes.
- \$1.6 million higher estimates for software tax credits and exemption changes.
- \$0.1 million lower estimates for enforcing sales tax on on-line purchases tax credits and exemption changes.

- \$20,000 lower estimates for non-essential food containers tax credits and exemption changes.
- \$20,000 higher estimates for agricultural compounds/bull semen and pesticides tax credits and exemption changes.
- \$0.1 million lower estimates for direct mail advertising tax credits and exemption changes.

Offsetting the decreases in revenue estimates outlined above, the tax code compliance initiative increases General Fund revenue by \$3.4 million in FY 2009-10. This initiative is based on the Colorado Integrated Tax Architecture (CITA) project which, although not fully implemented, has yielded substantial benefits for the Department, including increased data analysis. This system identified over 1,800 overdue accounts with over \$10,000. Based on a conservative estimate of 10.0 percent of these accounts billed, \$3.4 million and \$10.2 million is estimated to be generated in additional General Fund revenue in FY 2009-10 and FY 2010-11, respectively.

FY 2009-10 General Fund Reserve Adjustment: Final Budget Balancing Plan

While State law allows me to maintain a 1.0 percent General Fund reserve, my FY 2009-10 Budget Balancing Plan sets the General Fund appropriations reserve at \$153.8 million, \$21.8 million higher than the 2.0 percent statutory General Fund appropriations reserve based on my total balancing plans and budget to date. This reserve level is net of a small decrease of \$0.4 million to calibrate to the lower General Fund appropriations spending level requested in my Final Budget Balancing Plan. The FY 2009-10 ending reserve estimate becomes the beginning General Fund reserve for FY 2010-11. As discussed above, this higher reserve level is necessary to implement my FY 2010-11 balancing plan.

Final Budget Balancing Plan for FY 2010-11

The December 2009 Legislative Council Staff economic forecast results in a further General Fund budget shortfall for FY 2010-11 compared to current FY 2010-11 General Fund expenditure estimates.

Please note that in addition to reflecting the Legislative Council Staff economist December 2009 economic forecast for General Fund revenues, my balancing plan also reflects an adjustment of \$25.0 million for a tax refund to a large taxpayer that was not contemplated in the forecast.

This Final Budget Balancing Plan for FY 2010-11 contains net General Fund initiatives totaling \$170.4 million. These initiatives include net General Fund expenditure reductions of \$218.2 million. These net expenditure reductions are partially offset by General Fund revenue net decreases totaling \$52.0 million, inclusive of a \$140.0 million transfer from the General Fund to the State Education Fund. The Plan also reflects a General Fund reserve adjustment of \$4.2 million to calibrate to the lower General Fund expenditures on which the reserve is calculated.

FY 2010-11 General Fund Expenditure Reductions: Final Budget Balancing Plan

My Final Budget Balancing Plan for FY 2010-11 contains \$218.2 million in net General Fund expenditure reductions, including a \$211.0 million net decrease in General Fund appropriations and \$7.2 million in General Fund obligations/expenditures for Interest on School Loans not appropriated in the budget.

Highlights of the approximately \$211.0 million net General Fund expenditure changes include \$290.4 million in General Fund reductions and \$79.4 million of offsetting General Fund increases. The \$290.4 million of General Fund reductions in this Final Budget Balancing Plan includes the following:

- \$204.5 million of savings in the Department of Health Care Policy and Financing associated with an assumption of enhanced FMAP extension in FY 2010-11. Of this sum, \$181.7 million in General Fund savings reflects the additional six months of enhanced FMAP in FY 2010-11, \$22.8 million is the impact of the enhanced FMAP on hospital provider payments. (Note: these savings are offset by \$10.3 million in General Fund increases attributable to caseload changes, for a net impact of \$194.2 million FMAP benefit; the reduction is discussed on page 8).
- \$21.2 million from enhanced federal ARRA adjustments applied to the Medicare Modernization Act State Contribution Payments, which is usually 100 percent General Fund.
- \$20.6 million in the Department of Health Care Policy and Financing associated with reduced caseload in Medicaid Premiums, Mental Health Community Services financed with Medicaid.
- \$15.4 million of reductions in the Department of Higher Education associated with the refinancing of Need-based Grants with College Invest Cash Funds.
- \$19.4 million of savings from the Department of Corrections associated with caseload reductions and program adjustments. This includes \$10.1 million in General Fund savings due to a reduced need for contracted prison bed space, \$6.1 million in General Fund savings due to a reduced medical services caseload, \$2.3 million in General Fund savings due to a decrease in parole and community caseloads, \$0.9 million General Fund savings associated with the decommissioning of the boot camp program, and other adjustments.
- \$7.0 million associated with refinancing the Child Welfare program with federal Temporary Assistance to Needy Families (TANF) moneys.
- General Fund savings of \$0.5 million are taken in the Department of Agriculture, associated with the refinancing with the Agricultural Management Cash Fund.

- General Fund savings of \$0.2 million associated with H.B. 10-1083 (DOC lease-purchase day surgery center) is included in my plan. House Bill 10-1083 (Rep. Gardner B. / Sen. Steadman) will generate \$201,920 General Fund savings in FY 2010-11 and beyond per the January 13, 2010 Legislative Council Staff Fiscal Note.
- Technical corrections to the Department of Human Services budget generate \$0.1 million of savings.
- This FY 2010-11 Final Budget Balancing Plan includes \$1.4 million General Fund of Operating Expenses reductions. Departments calculated their total FY 2010-11 General Fund Operating Expenses base; from this total 5.0 percent was calculated. In some cases, there were unique circumstances or exemptions from the request. The table which follows shows the FY 2010-11 General Fund Operating Expenses reduction by department.

FY 2010-11 General Fund Operating Reductions	
Department	Amount
Agriculture	\$ 20,682
Corrections	299,825
Education	18,191
Governor's Office	19,261
Health Care Policy and Financing	34,570
Higher Education <1>	0
Human Services	610,772
Labor and Employment	0
Local Affairs	11,475
Military Affairs <1>	0
Natural Resources	56,816
Personnel	21,082
Public Health & Environment	98,638
Public Safety	202,884
Regulatory Agencies	3,203
Revenue <1>	0
Transportation	0
Total	\$ 1,397,399

<1> Exempted from the 5.0 percent Operating Expenses reduction.

Exemptions from the 5.0 Percent Operating Expenses General Fund Reduction

- ✓ The Department of Military and Veterans Affairs was exempted from the 5.0 percent Operating Expenses reduction because of the significant level of past reductions in this area and the detrimental impact any further reductions would have upon department operations and veteran's services.

- ✓ The Department of Higher Education was exempted from the 5.0 percent Operating Expenses reduction due to the substantial General Fund reductions already being taken in this department. It should be noted that, the requested General Fund level for institutions of higher education in FY 2010-11, has been set at each institution's respective FY 2005-06 state funding level as required by the American Recovery and Reinvestment Act of 2009 (ARRA) maintenance-of-effort section for the State Fiscal Stabilization Fund. Any further General Fund reduction to the institutions of higher education beyond the Governor's FY 10-11 request would violate this maintenance-of-effort requirement in the request year and put in jeopardy federal ARRA moneys.
- ✓ The Department of Revenue was exempted from the 5.0 percent across-the-board Operating Expenses reduction. The only means by which the Department could achieve the savings would be to extend its current computer replacement cycle from nine years to eleven years. This impact did not seem feasible considering the type of work completed by the Department.

In addition to the \$211.0 million of net appropriated General Fund expenditure reductions, my plan also reduces \$7.2 million of non-appropriated General Fund. My Final Budget Balancing Plan for FY 2010-11 includes a General Fund expenditure savings of \$7.2 million associated with the refinement of the OSPB December 2009 forecast on Interest on School Loans. This funding area is not appropriated but is assumed in the total state General Fund balancing decisions. The FY 2010-11 OSPB forecast had reflected \$11.5 million for Interest on School Loans; further refinement reflects an estimate of \$4.2 million – a savings of \$7.2 million compared to the forecast. Please note, OSPB used the Legislative Council Staff economists December 2009 forecast to project General Fund revenues; however, the OSPB forecast is used for projecting General Fund obligations and expenditures.

This \$290.4 million of General Fund reductions is partially offset by \$79.4 million of additional General Fund increases. This \$79.4 million of General Fund increases include the following:

- \$50.9 million attributable to revisions and modifications to the MMIS payment delay proposal from four weeks to two weeks.
- \$10.7 million associated with opening CSP II, Tower II in the Department of Corrections.
- \$10.3 million associated with Medicaid cash fund corrections and changes attributable to caseload reductions in enhanced FMAP in the Department of Health Care Policy and Financing.
- \$3.3 million associated with caseload for DYC contract placements in the Department of Human Services.
- \$2.1 million associated with refinements of the Grand Junction Regional Center proposal estimates (from the August 25th submission figures for FY 10-11).

- \$1.5 million in the Department of Corrections associated with the cost of the Conservation Easement proposals (\$1.2 million) and the Tax Code Compliance Initiatives (\$0.3 million).
- \$0.6 million associated with the Medicare Modernization Act Payment Changes in the Department of Health Care Policy and Financing.

FY 2010-11 General Fund Revenue Enhancements: Final Budget Balancing Plan

The Final Budget Balancing Plan contains a net decrease of \$52.0 million of General Fund revenue adjustments. This includes increases of \$0.8 million General Fund for adjustments in the fiscal estimate for tax credits and exemptions based on the Fiscal Notes for the legislation, increases of \$25.2 million in General Fund revenue augmentation from a variety of initiatives described below, and cash fund transfers totaling \$62.0 million. Together, these revenue adjustments total \$88.0 million. Against these revenue increases, my balancing proposal seeks to transfer \$140.0 million from the General Fund into the State Education Fund for FY 2010-11. This results in \$52.0 million of decreased net General Fund revenue available. This decrease is made up by additional General Fund expenditure reductions.

My FY 2010-11 Final Budget Balancing Plan's changes to the estimate submitted on November 6, 2009 for FY 2010-11 for tax credits and exemptions increase the General Fund revenue by a net \$801,500. These include the following estimate changes to the November 6, 2009 request for tax credit and exemptions:

- \$0.7 million General Fund revenue decrease for direct mail advertising.
- \$10.4 million General Fund revenue decrease for industrial and manufacturing energy use.
- \$0.1 million General Fund revenue decrease for non-essential food containers.
- \$0.1 million General Fund revenue increase for candy and soft drinks.
- \$0.2 million General Fund revenue increase for agricultural compounds, bull semen and pesticides.
- \$7.35 million General Fund revenue increase for corporate enterprise zone investment tax credit.
- \$1.45 million General Fund revenue increase for alternative fuel vehicle credits.
- \$5.5 million General Fund revenue increase for gross conservation easement credits.

- \$2.5 million General Fund revenue decrease of alternative minimum tax and tax credit.
- \$8.7 million General Fund revenue increase for software exemption.
- \$0.3 million General Fund revenue decrease for sales tax collections for online purchases.
- \$8.55 million General Fund revenue decrease for net operating loss to \$250,000.

My FY 2010-11 balancing plan includes \$25.2 million in other General Fund augmentation for FY 2010-11. This includes the following General Fund proposals:

- \$15.4 million associated with changes in tax code compliance.
- \$4.1 million for conservation easement backlog initiative (note there is also a General Fund expenditure request associated with this initiative).
- \$3.4 million associated with refinancing Fitzsimons COPs, and reducing the General Fund transfer to the Capital Construction Fund.
- \$1.5 million associated with inclusion of the General Fund revenue fiscal impact reflected in January 19, 2010 Fiscal Note for H.B. 10-1055 (Rep. Kefalas/Sen. Steadman -- fees for services rendered by a third party for collection of delinquent taxes be added to the total amount collected by the third party).
- \$0.75 million associated with a procurement card signing bonus net impact for FY 2010-11 in the Department of Personnel and Administration.

My FY 2010-11 balancing plan includes \$62.0 million of General Fund revenue increases associated with transfers from cash funds into the General Fund, including:

- \$29.8 million associated with the College Invest Trust Fund transfer initiative.
- \$11.0 million from the Perpetual Base Account of the Severance Tax Trust Fund.
- \$10.0 million from the Department of Local Affairs Severance Tax Fund.
- \$6.3 million from the Federal Mineral Lease Maintenance and Reserve Fund.
- \$3.0 million from the Medical Marijuana Program Cash Fund.
- \$1.5 million from the Department of Revenue Alternative Fuels Fund.

- \$0.4 million associated with the transfer of three separate cash funds from the Department of Health Care Policy and Financing.

Finally, my Budget Balancing Plan provides for a \$140.0 million transfer from the General Fund to the State Education Fund in FY 2010-11. This measure will ensure solvency in the State Education Fund in the request year based on the Governor's November 6, 2009 total program reduction request in FY 2010-11.

FY 2010-11 General Fund Reserve Adjustment: Final Budget Balancing Plan

My FY 2010-11 Budget Balancing Plan continues to set the General Fund appropriations reserve at 2.0 percent of General Fund dollars subject to the appropriations limit, as proposed in my November 6, 2009 FY 2010-11 budget request. Please note, however, that the General Fund reserve assumption is lowered by \$4.2 million, attributable to calibrating the reserve for \$211.0 million of General Fund expenditure reductions which are subject to the S.B. 09-228 limit on which the reserve calculation is based.

Summary

In summary, my Final Budget Balancing Plan for FY 2009-10 contains General Fund initiatives which lower General Fund balancing initiatives by a net \$20.2 million while providing for basic caseload adjustments in Medicaid and Youth Corrections. My FY 2010-11 budget contains over \$170.4 million in net General Fund budget-balancing measures, including the transfer of \$140.0 million General Fund to the State Education Fund.

I remain committed to submitting a balanced budget for the State of Colorado. I look forward to continuing our work together to provide critical state services and foster economic growth. Finally, I greatly appreciate your committee and staff's professionalism and patience as we have worked to finalize this extraordinarily complex budget submission.

Sincerely,



Governor Bill Ritter, Jr.

cc: Senator Moe Keller, Joint Budget Committee Vice-chairman
Senator Al White, Joint Budget Committee Member
Senator Abel Tapia, Joint Budget Committee Member
Representative Mark Ferrandino, Joint Budget Committee Member
Representative Kent Lambert, 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, 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.