



Tough Choices Shared Sacrifice Spending Less

Governor Bill Ritter's
Balanced Budget Request
FY 2010-11 Budget

Printed November 6, 2009



Keeping the Budget Balanced

FY 2009-10

- The Legislature and Governor have addressed a \$2.04 billion shortfall in FY 2009-10.
 - During the 2009 session the shortfall of \$1.454 billion General Fund was addressed for FY 2009-10.
 - On August 25, 2009 the additional shortfall of \$318 million General Fund identified in the June forecast for FY 2009-10 was addressed.
 - On October 28, 2009 the additional shortfall of \$271.4 million General Fund shortfall identified in the September forecast for FY 2009-10 was addressed.
- The Governor will continue to track the FY 2009-10 budget and propose necessary adjustments when new forecasts are published in December.



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.
 - Streamlines information technology services while reducing the IT workforce.
 - 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.
 - Reductions include a one-time \$20.1 million savings in employee compensation.
 - Modifies and temporarily suspends \$131.8 million in tax exemptions and credits.
 - Maintains a 2.2% statutory reserve of \$150.9 million.



Tough Choices

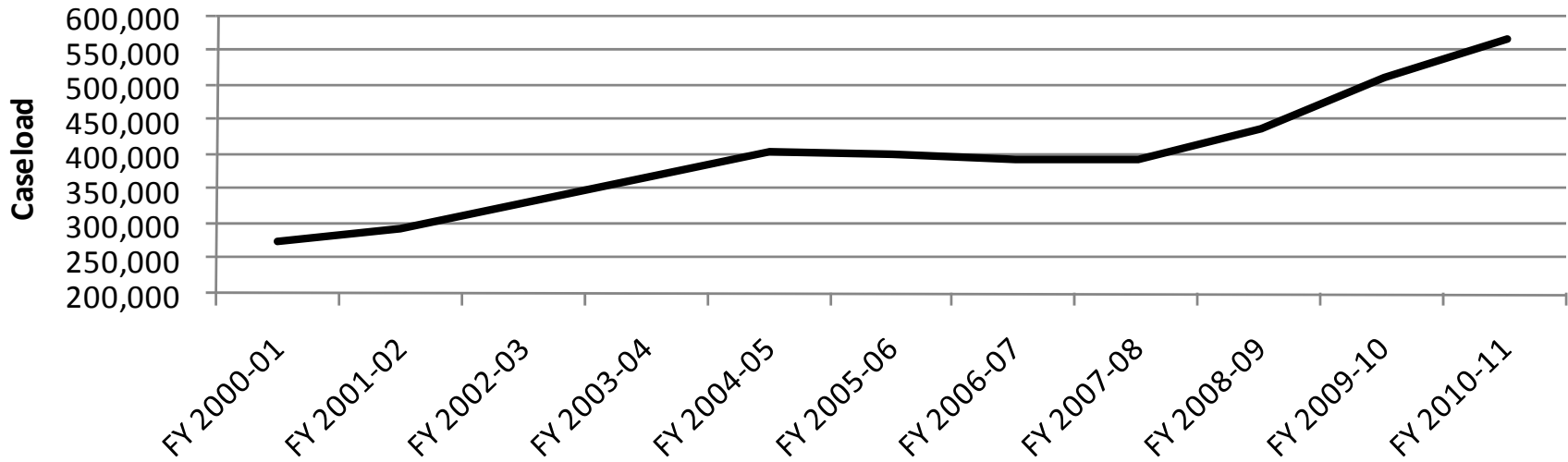
- 97.0% of Colorado's FY 2009-10 General Fund appropriation is devoted to just five areas of service:
 - **43.3%, K-12 Education** is the largest component of the General Fund budget and was off limits when balancing in FY 2009-10 due to a required 5% General Fund increase.
 - **21.2%, Health Care Policy 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.



45% Medicaid Caseload Growth

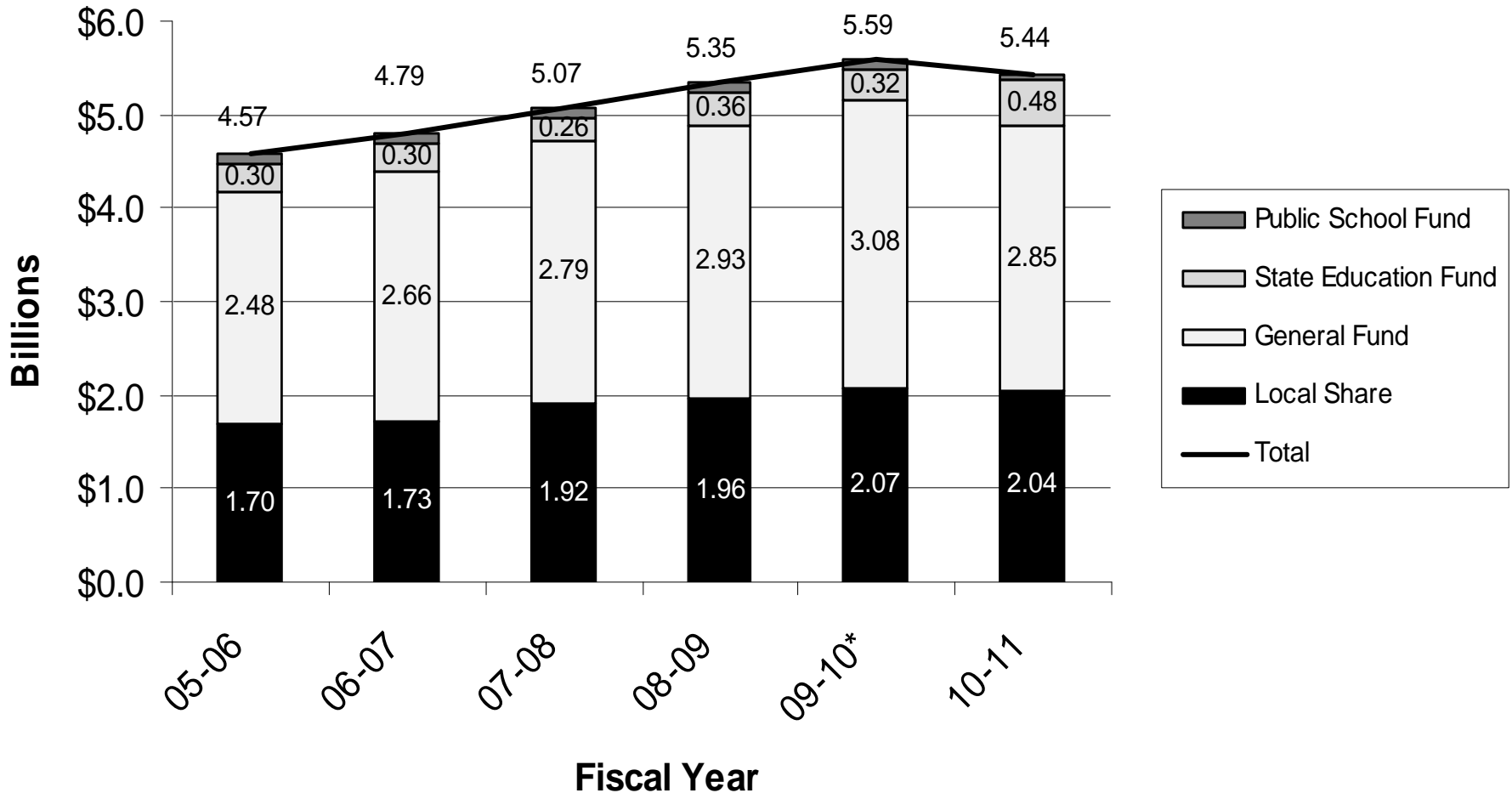
FY 2007-08 through FY 10-11

Source: Department of Health Care Policy and Financing





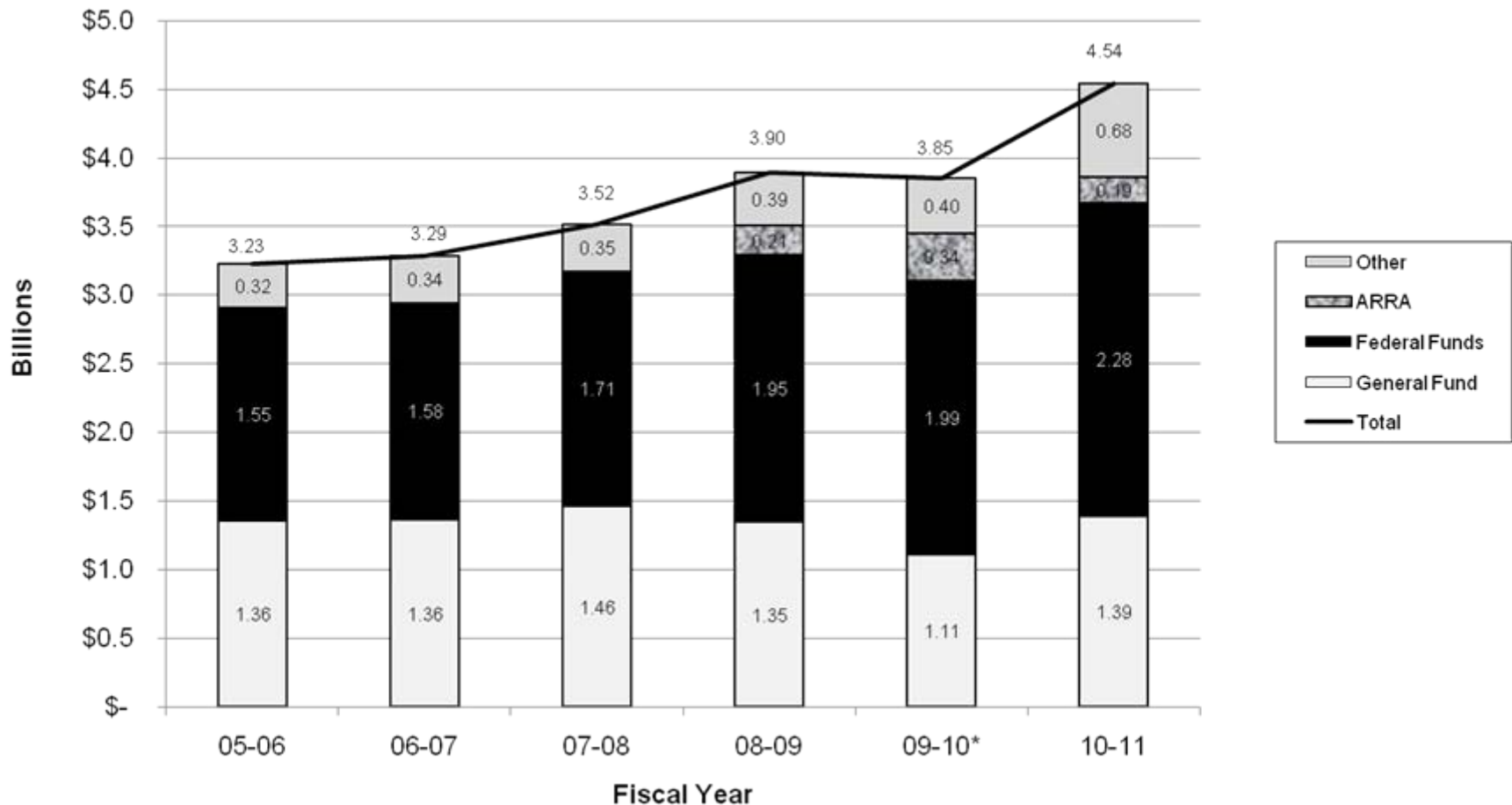
K-12 Total Program Funding



*Based on October 28 FY 2009-10 Balancing Plan.



Health Care Policy and Financing Funding

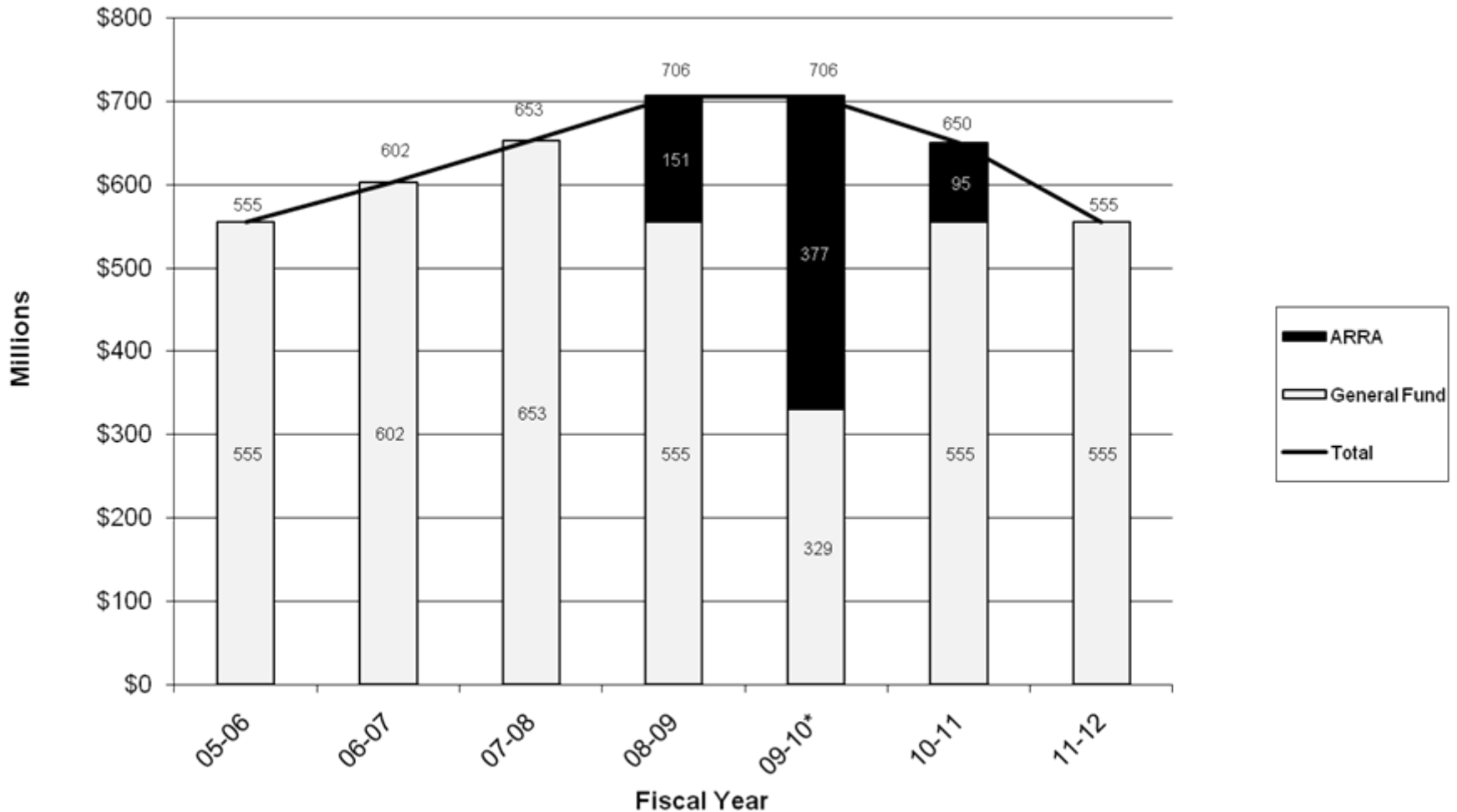


*Based on October 28 FY 2009-10 Balancing Plan.



Institutions of Higher Education Funding

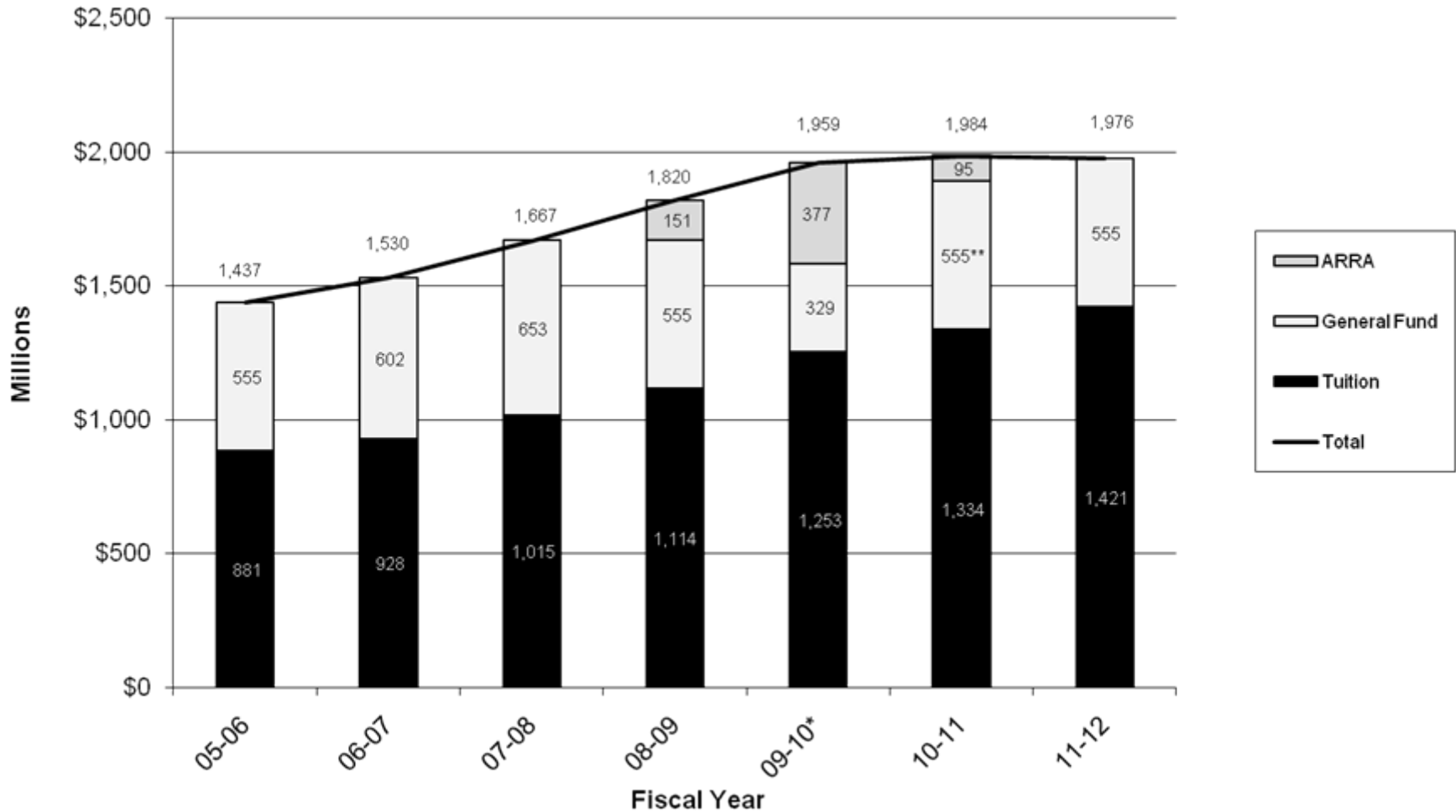
General Fund and ARRA Only



*Based on October 28, FY 2009-10 Balancing Plan.



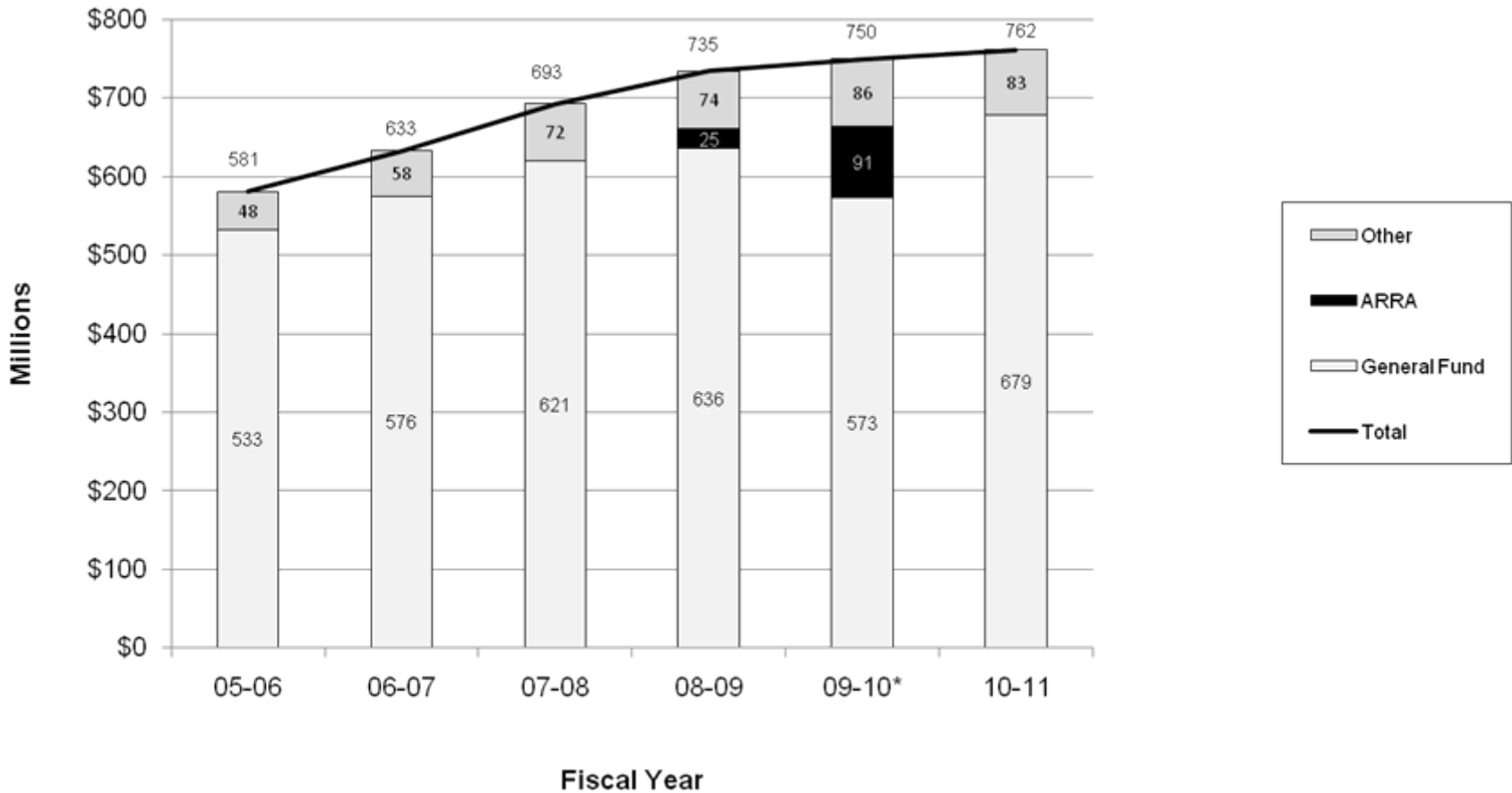
Institutions of Higher Education Funding



*Based on October 28 FY 2009-10 Balancing Plan.
 **General Fund support level required by federal ARRA law.



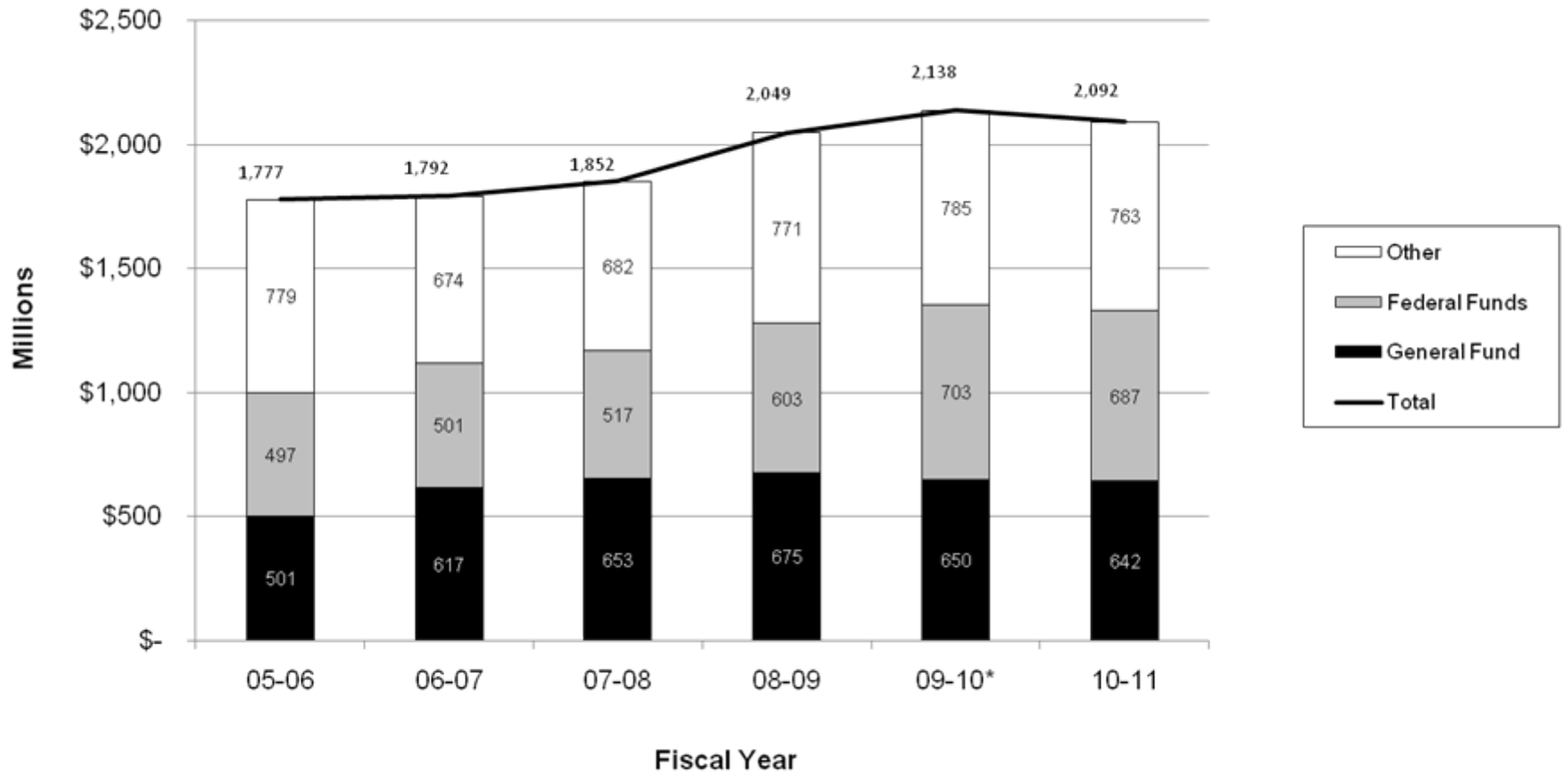
Corrections Funding



*Based on October 28 FY 2009-10 Balancing Plan.



Human Services Funding



*Based on October 28, FY 2009-10 Balancing Plan.



Federal Stimulus Funds

- Although the American Recovery and Reinvestment Act of 2009 (ARRA) helps Colorado address the economic downturn in many ways, the most direct ways it helps with the State Budget are through: the enhanced federal match for Medicaid (FMAP), backfilling cuts to higher education with State Fiscal Stabilization Funds (SFSF); and Governor discretionary funds in the SFSF.

| Fiscal Year | FMAP | SFSF Education Fund | SFSF Discretionary Funds | Total |
|--------------------|----------------------|------------------------------------|---|------------------------|
| 2008-09 | \$214,141,317 | \$150,676,055 | \$34,377,983 | \$399,195,355 |
| 2009-10 | \$341,995,112 | \$376,508,243 | \$95,213,142 | \$813,716,497 |
| 2010-11 | \$192,394,435 | \$94,694,099 | \$8,580,978 | \$295,669,512 |
| Total | \$748,530,864 | \$621,878,397 | \$138,172,103 | \$1,508,581,364 |



Balancing the FY 2010-11 Budget

- The Governor's FY 2010-11 balanced budget does not include increases in the following areas that would be included in the base budget in most years.

| Budget Area | General Fund Increase Avoided |
|-------------------------|--------------------------------------|
| K-12 Base Increase | \$184,594,675 |
| CSP II and DRDC Opening | \$43,778,057 |
| Salary Survey | \$13,999,879 |
| Performance Pay | \$7,163,695 |
| Social Services Formula | \$6,094,426 |
| Total | \$255,630,732 |



Balancing the FY 2010-11 Budget

- The Governor's FY 2010-11 balanced budget addresses a shortfall for the upcoming fiscal year of \$1.02 billion General Fund. This shortfall was addressed using the following components:
 - \$708.6 million Net General Fund expenditure reductions.
 - \$153.6 million revenue from exemptions, credits and other changes.
 - \$158.1 million 2.2% General Fund Reserve proposal.



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** – During the past several years many gains have been made to ensure early childhood education programs are available for those who need them. This plan protects those gains.



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.
- **Severance Grants** - While these grants are on hold for FY 2009-10 this request protects anticipated grants in FY 2010-11.
- **Water Related Cash Funds** – Due to the cuts already taken in this area, any additional loss of funding for water projects will significantly harm Colorado's ability to meet future water needs.
- **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.



Significant Reductions and Changes

■ Department of Corrections

- **Caseload Increases** – \$5.1 million General Fund and 16.1 FTE associated with projected growth in prison, parole and medical caseloads. This includes \$3.0 million for additional private prison bed capacity, \$1.6 million and 16.1 FTE to supervise additional parolees, and approximately \$0.4 million to provide medical services and pharmaceuticals for the projected total DOC population.
- **Essential Operating and Security at CSP II** – Approximately \$1.0 million General Fund and 10.7 FTE associated with providing minimal operations and security support for the Colorado State Penitentiary II. This request will ensure that equipment is tested while under warranty, that essential systems such as heating and cooling are maintained, and that security around the expanded perimeter of the CSP II complex is sufficient to protect the state's investment in the facility.

■ Department of Education

- **Categorical Programs** - Categorical programs funding increase of \$1.4 million in FY 2010-11, based on the September Legislative Council forecasted consumer price index of -0.4% plus 1.0% (required by Amendment 23) resulting in a 0.6% increase in FY 2010-11. This results in increases for programs including, English language proficiency, transportation, gifted and talented, expelled and at-risk students grants, and distributions to the Colorado Vocational Act (impacting community colleges).



Significant Reductions and Changes

- **Public School Finance**— FY 2010-11 includes a \$260 million, 4.56% Total Program reduction over the original FY 2009-10 appropriation, including a General Fund reduction of \$223.3 million. This reduction is applied equitably through reductions to the cost-of-living factor and the creation of an equity adjustment factor so every school district experiences the same percentage reduction in funding. Within this Total Program reduction, base per pupil funding increases. These increases are based on the September Legislative Council forecasted consumer price index of -0.4% plus 1.0% (required by Amendment 23) resulting in a 0.6% increase in FY 2010-11.
- **Office of Information Technology**
 - **Statewide Information Technology Staff Consolidation** - \$6.6 million statewide total funds (\$2.5 million General Fund) and a transfer of 680.7 FTE from State agencies to the Governor's Office of Information Technology (OIT). OIT was able to accomplish a reduction of 75.7 FTE (10% reduction) state-wide through this transfer. This request is the next step in the Governor's Office of Information Technology staff consolidation as part of SB 08-155 to realize the efficiency, cost savings, improved collaboration and innovation consolidation will bring.



Significant Reductions and Changes

■ Department of Health Policy and Financing

- **Medical Services Caseload and Cost Increases** – \$156.7 million General Fund increase associated with caseload and cost increases in Medical Services Premiums, Medicaid Mental Health, the Children’s Basic Health Plan, and the Medicare Modernization Act State Contribution Payment. Of the total caseload and cost increase in the Department, \$134.7 million General Fund, or 86%, is from the Medicaid Medical Services Premiums.
- **Medicaid Payment Timing** – A \$93.8 million General Fund reduction associated with a shift in the final four weeks of payments processed through the Medicaid Management Information System (MMIS) from FY 2010-11 into FY 2011-12.
- **Adjust Department Appropriations to Reflect Enhanced Federal Medicaid Assistance Percentages** – A decrease of \$192.4 million General Fund associated with adjusting the Department appropriations to reflect the enhanced Federal Medicaid Assistance Percentage (FMAP) that is in place from the federal American Recovery and Reinvestment Act (ARRA). Because these savings were previously accounted for in statewide budget balancing, there is not a net savings as a result of this action. However, because the statutory state General Fund reserve is calculated from the appropriation total, there is a reduction to the amount required to maintain the 2% statewide General Fund reserve.



Significant Reductions and Changes

- **Medicaid Program Reductions** – A decrease of \$28.0 million General Fund associated with reductions in the Medicaid Program, including:
 - \$9.3 million associated with a 1% reduction to Medicaid provider rates.
 - \$0.6 million to reduce the rates paid to mid-level practitioners such as nurse practitioners and physician assistants to 90% of the rate paid to physicians.
 - \$0.9 million for restrictions placed on optional durable medical equipment.
 - \$12.2 million to maintain cap on nursing facility General Fund rate growth at 0% for FY 2010-11.
 - \$1.3 million associated with the impact on rates for the Program for the All-Inclusive Care for the Elderly (PACE) rates from the nursing facility rate reduction.
 - \$2.0 million to refinance Disease Management Funding.
 - \$1.6 million to reduce rates paid to Behavioral Health Organizations for Medicaid mental health services by 2.0%.

■ Department of Higher Education

- An increase of \$81.2 million in cash funds for tuition spending authority in FY 2010-11. This spending authority is based on a tuition recommendation which caps resident undergraduate students to a 9.0% effective rate increase per student over their prior years tuition amount. This tuition policy sets no limits on non-resident and graduate student tuition in FY 2010-11, with the exception of Fort Lewis College where non-resident tuition is requested to have no increase in FY 10-11. Tuition levels will be set by the higher education governing boards within these parameters. For the next academic year Pell Grant increases will help to offset tuition changes for eligible students.



Significant Reductions and Changes

- **Higher Education Governing Boards** - A reduction of \$56.0 million federal funds from the institutions of higher education in FY 2010-11 due to the exhaustion of the Education Stabilization Fund from the American Recovery and Reinvestment Act of 2009 (ARRA) in FY 2010-11. Originally the state had intended to allocate \$150 million federal fund to the institution of higher education in FY 2010-11 but due to budget balancing, only \$94 million is left for Higher Education in FY 2010-11. In FY 2008-09 and FY 2009-10, the institutions of higher education were held harmless from changes in state funding levels due to the Education Stabilization Fund from the American Recovery and Reinvestment Act of 2009 (ARRA). This request assumes that General Fund support for the Governing Boards is maintained at \$555.3 million in FY 11-12 as well, but economic conditions could impact this assumption.
- **Department of Human Services**
 - **Division of Youth Corrections Flexible Funding** – Reduction of \$9,150,000 General Fund for the Division's of Youth Corrections. The Division had planned to use flexible General Fund available in its budget to make investments in the Continuum of Care initiative. These investments will be delayed another year until FY 2011-12.



Significant Reductions and Changes

- **Enforcing Sponsorship Commitments For Applicants and Recipients of Adult Financial Programs** - Reduction of \$14.4 million total funds due to changes in eligibility for the Old Age Pension program. Statutory changes are requested to ensure a sponsor's income/resources are included in the determination of eligibility, regardless of the sponsor's relationship to the applicant. The reduction in Old Age Pension cash funds will result in increased General Fund available for other state programs.
- **Two Percent Community Provider Rate Base Decrease** – This is a reduction of \$18.2 million total funds including \$10.2 million net General Fund as a result of a 2% community provider rate decrease. This provider rate reduction will affect community providers including: the Colorado Commission for the Deaf and Hard of Hearing, County Administration, Child Welfare, Child Care, Mental Health, Developmental Disabilities, Vocational Rehabilitation, and Youth Corrections.
- **Public Health and Environment**
 - **Amendment 35 Funding Transfer-** \$25.7 million reduction in cash funds from the Prevention, Early Detection and Treatment Fund; Tobacco Education Cash Fund; and Health Disparities Cash Fund associated with the transfer to Health Care Policy and Financing for health related activities which would otherwise require General Fund support. The affected Amendment 35 grant programs will still receive \$17.3 million after this reduction.



Significant Reductions and Changes

■ Public Safety

- **State Patrol IT and Officer Safety Equipment Replacement** – \$2.3 million Highway Users Tax Fund “Off the Top” increase to replace outdated safety equipment such as vests and ammunition as well as critical information technology systems including the computer aided dispatch capability that assists all Colorado counties.

■ Department of Revenue

- **Tax Collection Enforcement Measures** – There are two proposals at a cost of \$322,000 General Fund to increase efforts to collect outstanding taxes owed to the State. These proposals relate to increased delinquency notifications and partnering with the U.S. Treasury to collect taxes from federal refunds. This proposal is projected to increase General Fund revenue by \$9.2 million.
- **Division of Motor Vehicle Refinance** – This proposal is a reduction of \$20.1 million General Fund to refinance DMV activities through an extension of the existing statute which diverts fee revenue from the Highway Users Tax Funds. This proposal requires an extension of the legislation approved in the 2009 legislative session.



Significant Reductions and Changes

■ Capital Construction

- Funds three Colorado armories in Grand Junction, Alamosa, and Windsor without any General Fund by accessing the Veterans Trust Fund.
- Funds two critical life/safety projects in the Department of Human Services without General Fund by using one-time federal stimulus funds.
- Uses federal funds for the Cumbres and Toltec Scenic Railroad track rehabilitation to ensure viability of this economic driver in SW Colorado.
- Reduces General Fund need for mandatory capital projects by refinancing annual payments for certificates of participation .
- Reduces the need for General Fund by requesting just over \$10 million for Level I Controlled Maintenance for FY 2010-11.
- Funds the Department of Revenue's "Colorado Integrated Tax Architecture" (CITA) project to create efficiency in the administration of the tax collection in Colorado.

■ Additional Changes

- As was indicated on the fact sheets that accompanied the August 25th balancing plan, there is reduction of \$138.3 million associated with the annualization of included initiatives.
- The request includes a recommendation to continue the suspension of the homestead exemption resulting in a \$90.2 million General Fund expenditure reduction.
- Require employees participating in PERA to increase their contribution by 2.5% for one year and reduce the state contribution by a corresponding amount for a General Fund savings of \$20.1 million.



Exemptions, Credits and Other Items

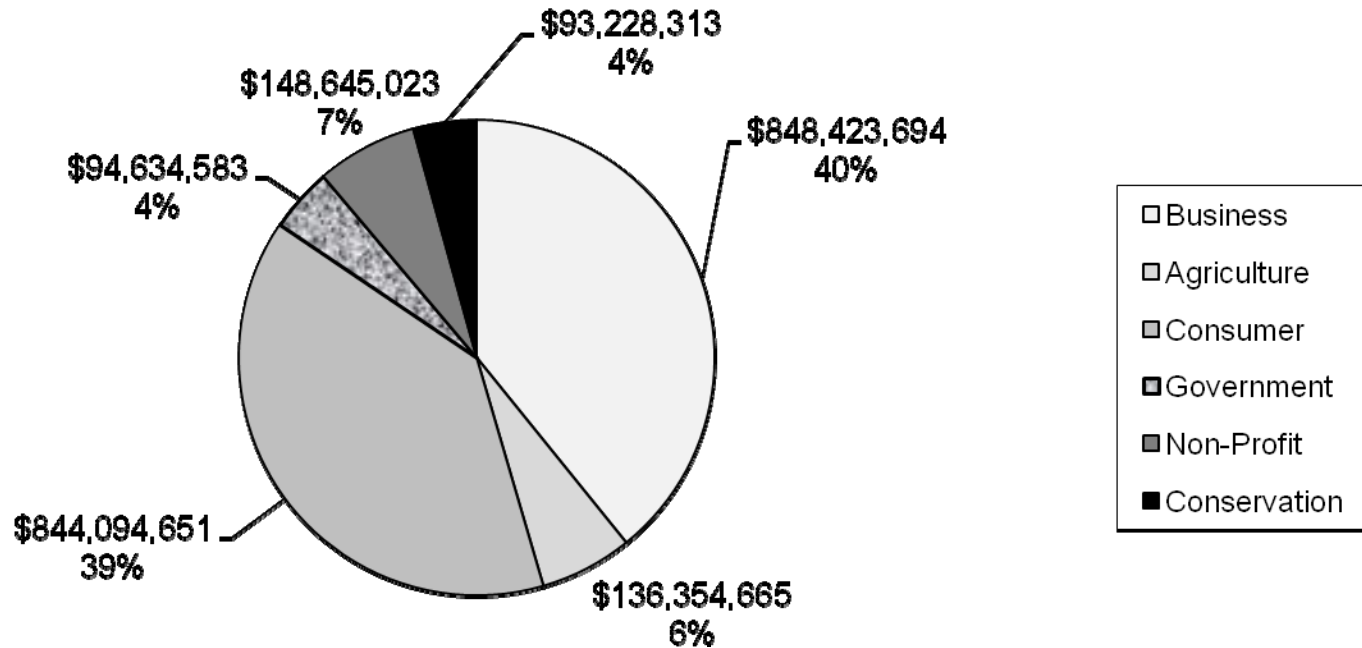
- The balanced budget request includes over \$168 million of General Fund revenue enhancements, which reduce the need for General Fund Expenditure reductions, including:
 - \$131.8 million, tax exemption and credit modifications.
 - \$21.4 million, diversion of gaming revenues to the General Fund.
 - \$7.0 million, savings from refinancing of certificates of participation.
 - \$4.2 million, treasury offset to collect back taxes from federal returns.
 - \$4.2 million, improved collection of delinquent tax filings.



Exemptions and Credits

Current Law

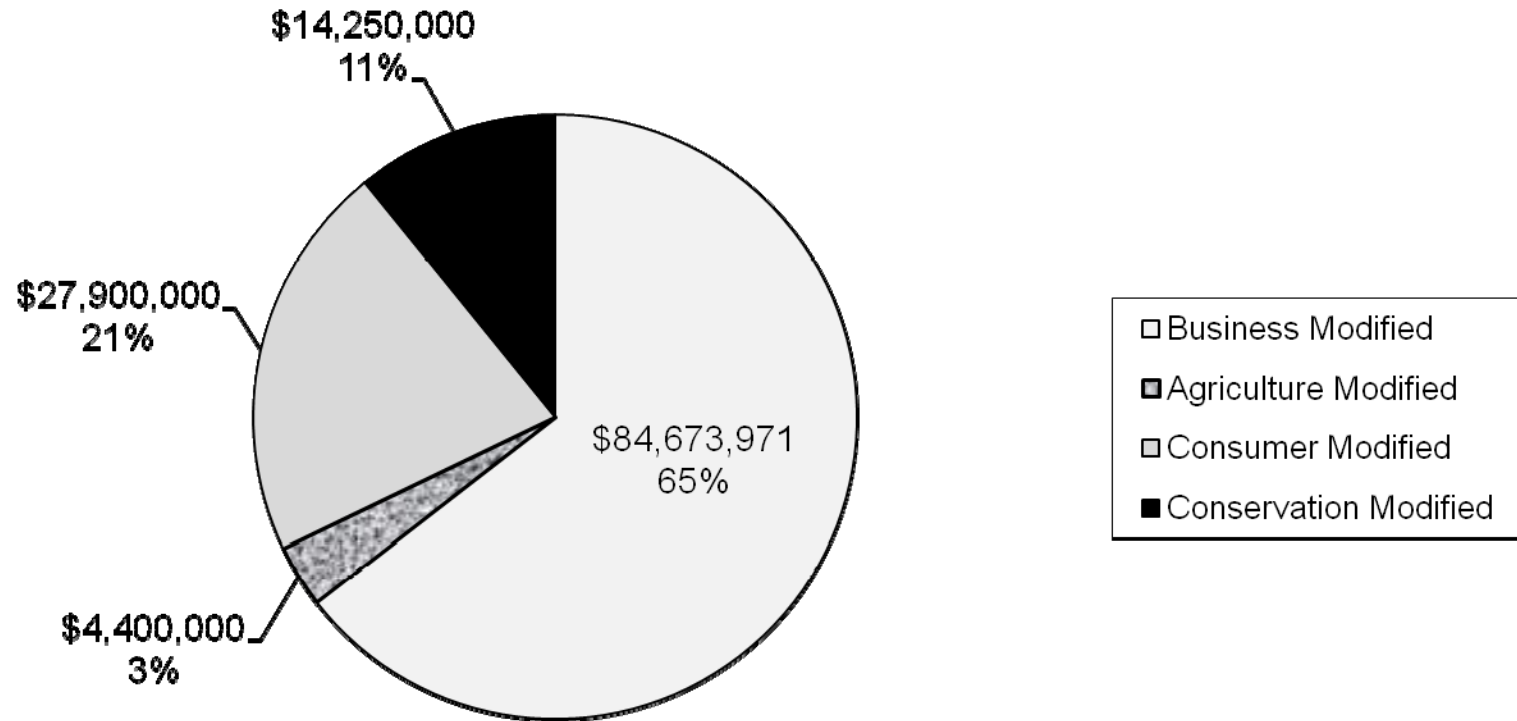
Approximate Values





Exemptions and Credits Distribution of Modifications

Approximate Values





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 2010-11 Fiscal Impact | Implementation Date | Duration of Proposal |
|--|--------------------------|---------------------|----------------------|
| Suspend Exemption for Direct Mail Advertising | \$1,450,000 | 7/1/2010 | 3 years |
| Suspend Exemption for Industrial and Manufacturing Energy Use | \$48,000,000 | 7/1/2010 | 2 years |
| Eliminate Exemption for Non-Essential Food Containers | \$2,100,000 | 7/1/2010 | Ongoing |
| Eliminate Exemption for Candy and Soft Drinks | \$17,900,000 | 7/1/2010 | Ongoing |
| Suspend Exemption for Agricultural Compounds and Bull Semen | \$1,500,000 | 7/1/2010 | 3 years |
| Suspend Exemption for Pesticides | \$2,900,000 | 7/1/2010 | 3 years |
| Temporarily Limit Corporate Enterprise Zone Investment Tax Credit to \$250,000 | \$4,450,000 | 1/1/2011 | 3 years |
| Revise Alternative Fuel Vehicle Credits | \$1,250,000 | 1/1/2011 | Ongoing |
| Temporarily Limit Gross Conservation Easement Credits | \$13,000,000 | 1/1/2011 | 3 years |
| Elimination of Alternative Minimum Tax and Tax Credit | \$2,500,000 | 1/1/2011 | Ongoing |
| Eliminate Software Exemption | \$15,000,000 | 1/1/2011 | Ongoing |
| Enforce Sales Tax Collections for Online Purchases | \$5,000,000 | 1/1/2011 | Ongoing |
| Temporarily Limit Net Operating Loss to \$250,000 | \$16,750,000 | 1/1/2011 | 3 years |
| Total Impact of All Exemption and Credit Revisions: | \$131,800,000 | | |



Looking Ahead

- Encouraging job growth, protecting public safety and preserving the safety net continue to be primary considerations.
- Maintained 2.2% General Fund reserve to ensure those funds are available if needed for balancing needs.
- Additional policy changes being developed for consideration during legislative session that could achieve additional savings.
- The Governor will continue to track the economic and budget situation and will propose additional changes if needed.
- Possible extension of FMAP benefits is currently being discussed in Washington.