

**TOPIC: BUDGET UPDATE**

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**I. SUMMARY**

On April 1, 2009, the Joint Budget Committee (JBC) completed the FY09-10 long appropriations bill. Since the March Commission teleconference meeting, both the current FY08-09 and the FY09-10 higher education General Fund budgets have gone through many changes in response to the worsening revenue forecasts delivered by the Legislative Council on March 20<sup>th</sup>. Changes have also occurred to account for relief available with federal funds through the American Reinvestment and Recovery Act. This agenda item summarizes the Joint Budget Committee's action this week, its impact on higher education, and the current state of the higher education General Fund budget. The Long Bill must proceed through the rest of the legislative process (caucuses, the Senate and House and conference) before being presented to the Governor.

**II. BACKGROUND**

The JBC relies on quarterly revenue forecasts to balance the long bill for the fiscal year. These forecasts are presented on the 20<sup>th</sup> of September, December, March, and June each year. The December forecast from the Legislative Council projected a significant decline in revenues in FY08-09 and a small decrease in FY09-10. Using this estimate, the JBC approved the Governor's recommendations and cut \$30 million from the FY08-09 appropriation in the current year and an additional \$30 million in FY09-10. From the FY09-10 cut, about \$22 million was cut from the governing boards, local district colleges, and the area vocational schools, and about \$8 million was cut from financial aid programs. This \$22 million was on top of the \$30 million for FY08-09, putting the cumulative cut for FY09-10 at this point at \$52 million. These actions were taken during higher education figure setting on March 10, 2009.

On March 20<sup>th</sup>, the Legislative Council issued a significantly more dire revenue forecast, projecting an additional \$156.3 million General Fund revenue reduction for FY08-09 and \$786.8 million for FY09-10. The JBC proposed no additional cuts to higher education for FY08-09, but initially approved an additional \$50 million cut for FY09-10. On April 1 it approved an additional \$300 million cut for FY09-10. Then later on April 1, the Governor's office submitted and the JBC approved an additional \$50 million cut in FY09-10, on the assumption that this \$50 million would be covered with the discretionary federal stimulus dollars. Thus, at this point, cuts to higher education for FY09-10 total \$452 million (\$52 + \$50 + \$300 + \$50). This would take overall state funding to the governing boards, local district colleges, and the area vocational schools to just above \$303 million. The FY08-09 state support had been about \$706 million, before the \$30 million cut.

The JBC indicated that the \$300 million cut could be backfilled through 'surplus' moneys reportedly held by and proposed to be transferred from Pinnacol Assurance. (Pinnacol was established as a political subdivision of the state to provide an assured source of workers' comp coverage for Colorado companies, regardless of their size or risk.) The Pinnacol solution would require revising state statute and carries various other uncertainties. While a bill is reportedly being drafted, this 'backfill' of \$300 million would be from this one-time funding source. Thus, if retained, this cut will need to be addressed again in FY10-11 even if the Pinnacol transfer were approved to cover the cut in FY09-10.

The President signed the American Reinvestment and Recovery Act of 2009 into law on February 17, 2009. This bill established the State Fiscal Stabilization Fund (SFSF), which will provide \$760 million to Colorado, of which approximately \$620 million will go to help avert cuts to K-12 and higher education in the current year, in FY09-10, and in FY10-11. Specifically under the Act, the Governor may use a portion of these moneys to hold higher education institutions to and K-12 education to their FY08-09 levels in each of those three years (or as near to that level as the \$620 million permits). The Governor's proposal, which still must be approved by the Federal government, was presented to the JBC on March 24<sup>th</sup> and provided the maximum amount of Federal stimulus dollars to higher education institutions allowed in the Act by fully backfilling the cuts that had been made as of March 24<sup>th</sup> (i.e., \$30 million in FY08-09 and \$52 million in FY09-10 and FY10-11).

If the Pinnacol transfer is approved, \$402 million of these cuts will be backfilled through this transfer or through Federal dollars (an estimated \$102 million in Federal dollars and \$300 million as a result of the Pinnacol transfer). However, both of these are one-time funding sources, meaning the best case scenario for higher education funding, without a significant recovery in state revenues, would be addressing substantial cuts of around 65% in FY10-11.

A further complication is the so-called maintenance of effort (MOE) requirement in the American Recovery and Reinvestment Act. That requires state support to be maintained at least at the state's FY05-06 level (\$555.5 million) in order to be eligible for the SFSF funds. Unless the state obtains a waiver of the MOE requirement from the Secretary of Education, the state may not be eligible for SFSF support for higher education because the long bill amount would be below FY05-06 levels by about \$2 million even if the \$300 million Pinnacol transfer is approved. A waiver would appear necessary at this point unless these cuts are adjusted as the long bill moves through the legislative process.

### **III. STAFF ANALYSIS**

The following charts summarize the cuts to be made to the governing boards, local district colleges, and the area vocational schools and show the FY09-10 level of funding. Neither chart accounts for how the last \$350 million in cuts would be allocated among the schools, nor for backfill revenue from either the anticipated Federal stimulus dollars or the transfer of funds from

Pinnacle Assurance. If these transfers occur, institutions of higher education will remain at their FY08-09 original appropriation in FY09-10 through the use of these one-time funds.

Cuts to Institutions of Higher Education for FY09-10		
Part	Original FY08-09 Approp + JBC action for FY 09-10	Running Total
Original FY08-09 Appropriation	\$ 705,965,059	
FY08-09 reduction carried forward	\$ (30,000,000)	\$ 675,965,059
Figure Setting GF reduction	\$ (22,530,781)	\$ 653,434,278
Monday, 3-30-09 JBC reduction	\$ (50,000,000)	\$ 603,434,278
Wednesday, 4-1-09 JBC reduction	\$ (300,000,000)	\$ 303,434,278
OSPB comeback for additional \$50 million cut to be backfilled with SSF 18.2% share from ARRA	\$ (50,000,000)	\$ 253,434,278

Summary of Cuts to Higher Education by Governing Board									
Gov. Board	Original FY08-09 Appropriation	FY08-09 Cut (\$30 M)	FY08-09 Adjusted Appropriation	FY09-10 Cut 1 (\$22,530,781)	FY09-10 Cut 2 (\$50 M)	FY09-10 Appropriation (before \$300 M) Cut	FY09-10 Cut 3 (\$300 M)*	FY09-10 Cut 4 (\$50 M)*	FY09-10 Appropriation
ASC	14,608,449	(557,851)	14,050,598	(418,960)	(1,043,076)	12,588,562	TBD	TBD	TBD
MSC	24,005,607	(923,321)	23,082,286	(693,438)	(1,713,168)	20,675,680	TBD	TBD	TBD
MSCD	49,713,412	(2,833,265)	46,880,147	(2,127,855)	(3,424,391)	41,327,901	TBD	TBD	TBD
WSC	12,173,017	(463,186)	11,709,831	(347,865)	(869,404)	10,492,562	TBD	TBD	TBD
CSU System	146,891,512	(7,408,574)	139,482,938	(5,564,033)	(10,247,313)	123,671,592	TBD	TBD	TBD
FLC	12,736,330	(613,404)	12,122,926	(460,682)	(892,381)	10,769,863	TBD	TBD	TBD
CU System	209,099,449	(7,998,030)	201,101,419	(6,006,729)	(14,928,410)	180,166,280	TBD	TBD	TBD
CSM	23,237,386	(850,129)	22,387,257	(638,469)	(1,664,191)	20,084,597	TBD	TBD	TBD
UNC	44,086,311	(1,660,538)	42,425,773	(1,247,107)	(3,150,942)	38,027,724	TBD	TBD	TBD
CCCS	142,320,783	(5,660,480)	136,660,303	(4,251,168)	(10,131,787)	122,277,348	TBD	TBD	TBD
AVS	11,202,546	(426,398)	10,776,148	(320,236)	(800,074)	9,655,838	TBD	TBD	TBD
LDC	15,890,257	(604,824)	15,285,433	(454,239)	(1,134,865)	13,696,329	TBD	TBD	TBD
<b>Total</b>	<b>705,965,059</b>	<b>(30,000,000)</b>	<b>675,965,059</b>	<b>(22,530,781)</b>	<b>(50,000,002)</b>	<b>603,434,276</b>	<b>(300,000,000)</b>	<b>(50,000,000)</b>	<b>253,434,276</b>

Data Provided by JBC Staff

\*The JBC approved allocating the final \$300 M cut proportionately across the governing boards, local district colleges, and area vocational schools.

Finally, the following cuts were made to specific state financial aid programs in FY09-10.

- Reduced need-based financial aid by \$5,902,827 by eliminating aid for graduate students in STEM programs.
- Eliminated remaining funding for the state's merit-based financial aid program (\$1.5 million).
- Eliminated funding for the ACG program (\$1.6 million).

The overall need based financial aid budget in FY09-10 is set at \$68,391,319. The work study program is set at \$16,612,357.