



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

Presentation to the
Joint Budget Committee

October 28, 2009



Keeping the Budget Balanced

- During the 2009 session the shortfall of \$1.454 billion General Fund was addressed for FY 2009-10.
- June forecast for FY 2009-10 resulted in the need to address an additional shortfall of \$318 million General Fund.
 - This was addressed through a plan submitted to the JBC on August 25, 2009.
- The September 21 forecast indicated the \$318.0 million General Fund shortfall had grown to \$589.4 million General Fund.
 - This plan balances to the new \$271.4 million General Fund shortfall and includes balancing updates for a total of \$286.2 million General Fund.
- This package of budget balancing actions fully balances the \$589.4 million General Fund shortfall.



Protecting the Reserve

- State law requires that reductions be implemented to maintain a reserve of at least 1% of General Fund appropriations.
- The Governor's plan maintains the reserve at 2% of General Fund appropriations (where it was set during the Legislative session).
- A 2% reserve instead of a 1% reserve continues to provide a buffer from future revenue decreases.
- The Governor's August 25 Plan submitted to the Joint Budget Committee also protected the 2% reserve.
- The 2% reserve totals approximately \$132 million.



Tough Choices

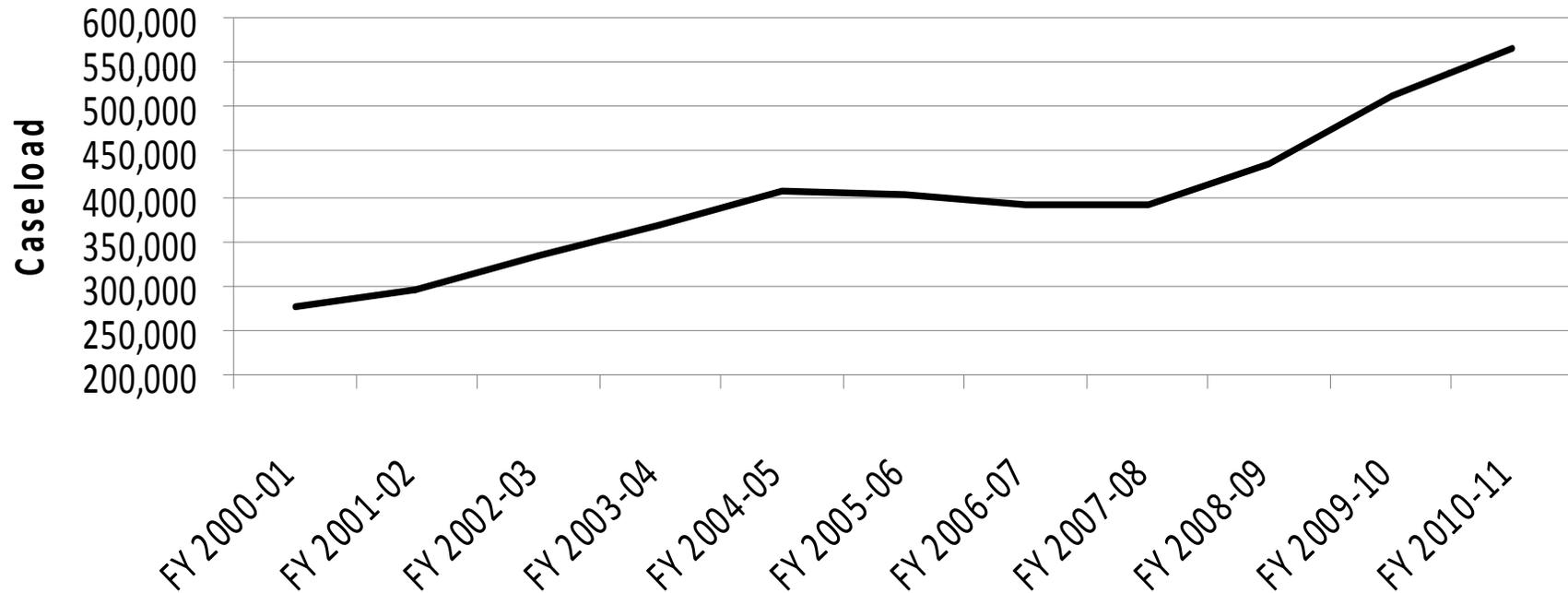
- 97.0% of Colorado's FY 2009-10 General Fund appropriation is devoted to just five areas of service:
 - **43.3%, K-12 Education** is the largest component of the General Fund budget and is off limits in FY 2009-10 due to a required 5% General Fund increase.
 - **21.2%, Health Care Policy and Financing**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





Balancing Updates

■ **Medicaid Caseload Growth**

- New Medicaid information indicates FY 2009-10 caseload will come in 34,779 individuals higher than what had been projected in the appropriation, driving an additional General Fund cost of \$28 million General Fund.
- This revised estimate is incorporated into this balancing plan.

■ **Aid to Needy and Disabled**

- Based upon additional information from the Department of Human Services, Legislators and the public, the Governor restored this proposed reduction to ensure these critical safety net services continue.
- This action restores \$4.5 million General Fund to the program and has been incorporated into this balancing plan.

■ **Accelerated Release Plan**

- Revisions accommodate a \$14.3 million General Fund variance adjustment to provide a buffer for the lower than estimated rate of transition.
- The revised savings of this reduction are incorporated into this balancing plan.



New Components of Balancing Plan

Balancing Action	Approximate Impact*
Higher Education Governing Boards (With 100% ARRA Backfill)	\$145,000,000
The American Recovery and Reinvestment Act of 2009 State Fiscal Stabilization Fund	\$45,100,000
Severance Tax Grant Funds	\$37,400,000
Medicaid Payment Adjustment	\$16,300,000
Suspend Clean Energy Fund Transfer	\$14,200,000
Refinance Certificates of Participation	\$10,750,000
Fitzsimmons Trust Fund Cash Fund Transfer	\$6,000,000
Medicaid Provider Rate Reduction	\$3,100,000
TANF Refinancing	\$3,000,000
County Tax Base Subsidy	\$2,800,000
Department of Corrections Canteen Cash Fund Refinance	\$2,500,000
Total	\$286,150,000

*Amounts approximate and may change in final submission to JBC on December 1.



Critical Services Protected

■ Public Safety

- **CBI Criminal Identification Unit** – This unit provides fingerprint-based identification of offenders in the custody of local law enforcement agencies.
- **Corrections Facility Ratios** - Facility staffing is a critical component of the Department with direct offender supervision in the 24/7 operations and management of 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.

■ 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. Although statute authorizes additional reductions to the fund, none are being proposed.
- **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.



Critical Services Protected

■ Human Services

- **Developmental Disabilities** – Community based DD services continue to protected. There will be no reduction in the number of available slots at the community level. No additional reductions to 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 reductions to the mental health institutes are proposed.
- **Child Welfare** – No additional reductions to child welfare are proposed in order to ensure child protection services are not significantly impacted.
- **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.
- **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. During the 2009 Legislative session funding the funding source for the DMVs was changed to the HUTF for one year so there is no General Fund support going to DMVs in FY 2009-10.



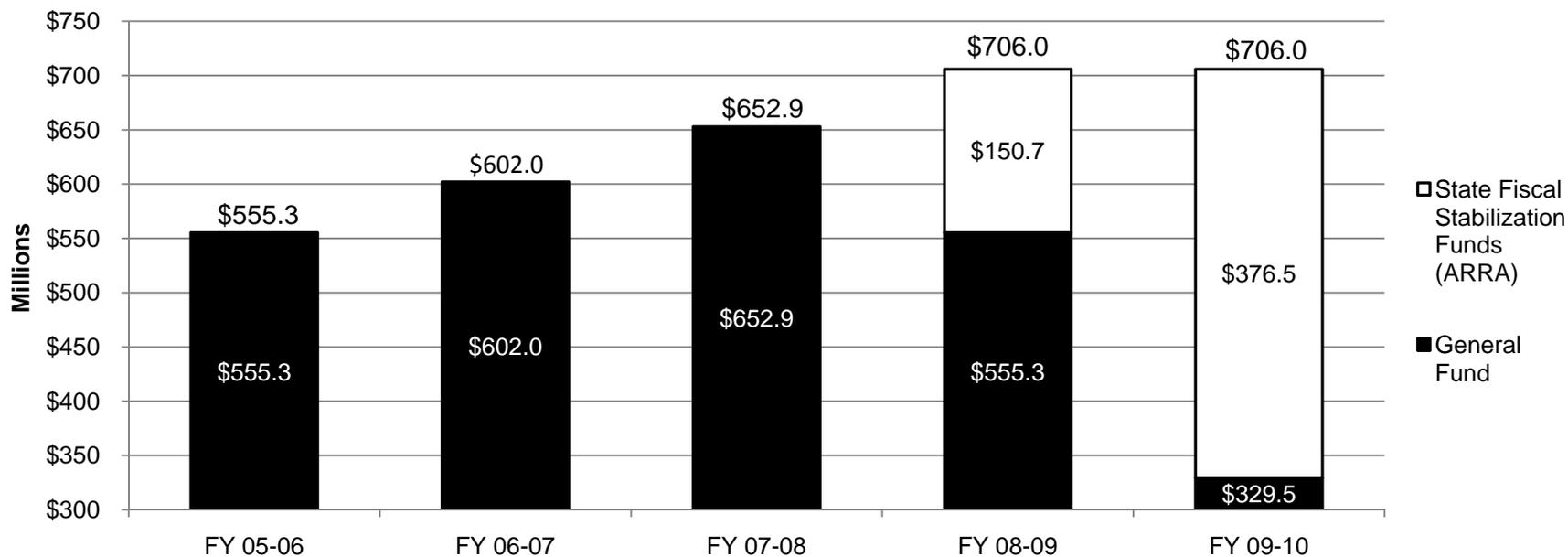
The following pages summarize the components of the balancing plan.

Amounts approximate and may change in final submission to JBC on December 1.



Plan Components

- Department of Higher Education, Governing Boards** – The Governor will seek an additional General Fund reduction from higher education governing boards of up to \$145 million. This is in addition to the \$80.9 million reduction that was included as part of the August 25 plan. This reduction, as well as the August 25 reduction, will be fully backfilled with federal ARRA funds in FY 2009-10. However, the reduction accelerates the depletion of ARRA funds available to backfill higher education in FY 2010-11. ARRA funds will be available to partially backfill higher education in FY 2010-11. However, there will be a net reduction to higher education in FY 2010-11, which will be included in the Governor's November balanced budget submission.





Plan Components

- **The American Recovery and Reinvestment Act of 2009 State Fiscal Stabilization Fund** - The Governor has authorized the use of the balance of the Government Services Funds for FY 2009-10 budget balancing. These are the 18.2% monies from the State Fiscal Stabilization Fund. The use of \$45.1 million, along with other obligations, will spend down the Government Services Fund. The Governor has already provided \$70 million of the funds for budget balancing purposes. The funds will balance the budget by reducing General Fund in the Department of Corrections and replacing those funds with federal funds. This refinancing will have no impact on DOC which will continue current staffing and security levels at state correctional facilities. This is a one-time refinancing.
- **Department of Local Affairs, Severance Tax Grant Funds** – A total of \$37.4 million in Severance Tax grants will be withheld from distribution until June 30, 2010 in order to make them available for balancing purposes. This amount (in combination with previously recommended transfers of Severance Tax funds) constitutes forecasted grant funds in FY 2009-10. The Governor requests authority to transfer up to \$37.4 million from Severance Grants into the General Fund should such a transfer be necessary. Should the funds not be needed for balancing, they will become available for grants in the FY 2010-11 cycle.
- **Eliminate Clean Energy Fund Transfer** - The Governor is proposing a legislative change for FY 2009-10, to require the portion of gaming revenues that would typically go to the Clean Energy Fund instead go into the General Fund. The estimated increase in General Fund revenues for FY 2009-10 is \$14.2 million.



Plan Components

- **Delay Medicaid Payments** - \$16.3 million General Fund reduction associated with the shift of the final two weeks of Medicaid provider payments processed through the Medicaid Management Information System in FY 2009-10 into FY 2010-11. Senate Bill 09-265 “Timing of Medicaid Payments” already requires that the final payment week of FY 2009-10 be shifted into FY 2010-11. This initiative would shift one additional week of payments into FY 2010-11. The impact of this request will be a two week delay in payments to Medicaid providers. All allowable, billed services will be continue to be paid.
- **Medicaid Provider Rate Reduction** - \$3.1 million General Fund reduction associated with a 1% decrease to the rates paid to physical health fee-for-service and managed care providers effective December 1, 2009. This reduction does not apply to mental health services, class I nursing facilities, prescription drugs, federally qualified health centers and rural health centers due to payment methodologies that are addressed separately. Rates paid to managed care organizations will also include a corresponding decrease as these provider payments are based on fee-for-service expenditures.



Plan Components

- **Refinance Certificates of Participation** - In 2005, the State issued Certificates of Participation (COPs) to build a new State penitentiary. In 2008, the State closed on another series of COPs to fund capital construction projects from Federal Mineral Lease (FML) funds at twelve different State-supported institutions of higher education. The Governor and Treasurer are proposing to refinance COPs related to higher education FML construction projects and Colorado State Penitentiary II to take advantage of historic lows in current interest rates, and to allow the State to experience General Fund relief, beginning in FY 2009-10. Through refinancing the above mentioned COPs the State will achieve approximately \$10.8 million in General Fund relief in FY 2009-10.
- **Fitzsimmons Trust Fund Cash Fund Transfer** - The State Treasurer has identified that \$6 million dollars resides in the balance of Fitzsimmons Trust Fund that will not be used for annual payments of certificates of participation payments or administrative costs. OSPB will request to deappropriate \$6 million in capital construction funds and transfer those funds to the General Fund. Through legislation, the cash funds from the Fitzsimmons Trust Fund will replace the deappropriated capital construction funds.



Plan Components

- **Refinance Child Welfare Services with TANF** - \$3.0 million General Fund of the Child Welfare Services Block will be refinanced with federal Temporary Assistance for Needy Family funds. This line will be refinanced with funds from the TANF Long-term Reserve, which are federal funds that have not been appropriated. Existing TANF services will not be impacted by this request.
- **County Tax Base Relief** - This is a \$2.8 million General Fund reduction associated with a decrease in the FY 2009-10 County Tax Base Relief appropriation. This reduction will reduce the state subsidy for counties that experience high social services caseloads and/or low property values. This reduction will not fully eliminate funding for the County Tax Based Relief in FY 2009-10, but will likely result in the counties needing to reduce social services administrative costs.
- **Department of Corrections Canteen Cash Fund Refinance** - This refinancing transfers \$2.5 million from the Canteen Cash Fund to the Education Subprogram's Personal Services line item to free up General Fund for statewide budget balancing. This transfer reduces the balance in the Canteen Cash Fund, but should not negatively affect current Canteen services. This is a one-time transfer.



FY 2010-11 Balancing Process

- The Governor will submit a balanced budget for FY 2010-11 to the JBC.
- When projected revenues for FY 2010-11 are compared to what base expenditures would be during a normal year, the shortfall for FY 2010-11 is approximately \$1.3 billion.
- The FY 2010-11 budget will include about \$594.0 million of required base budget adjustments for items such as Medicaid caseload growth and FMAP adjustments from FY 2009-10.
- The base budget increase does not include \$263 million of General Fund increases for what would have been expected base increases, including:
 - Salary survey and performance based pay
 - The opening of the CSP II and DDRRC expansion in the Department of Corrections
 - K-12 total program
- FY 2010-11 Medicaid caseload will have increased 45% compared to FY 2007-08.
- Departments were requested to submit reductions for FY 2010-11 to ensure a balanced budget.
- Options other than budget reductions will also be considered.
- Revisions to the November request will be considered when new revenue forecasts become available in December and March.