

# STATE OF COLORADO

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## EXECUTIVE CHAMBERS

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Bill Owens  
Governor

October 30, 2003

Senator Dave Owen, Chairman  
Joint Budget Committee  
200 E. 14th Avenue, 3rd Floor  
Denver, Colorado 80203

Dear Senator Owen:

I am pleased to submit to you a budget for FY 2004-05 that invests in essential priorities for the people of Colorado. I want to thank you and the Committee for your leadership during the last year as, together, we made difficult decisions to address the budget shortfall. As I submit to you this budget request, we have better news. For the first time in two years, revenues are beginning to stabilize. While the revenue picture is brightening, we must proceed cautiously and avoid adding new programs. Nonetheless, Colorado appears to be turning the corner.

Before I get into the specifics of the FY 2004-05 budget, I think it is important to put into perspective the budget environment of the last two years. Many who would like to increase government spending blame TABOR (the Taxpayer's Bill of Rights) for Colorado's budget challenges. However, a fair examination of Colorado's TABOR experience shows that TABOR is not – and has not been – the reason for Colorado's budget challenges.

First, the state has not had a TABOR surplus since the 2000-01 fiscal year. Even if TABOR did not exist, Colorado would still have had budget shortfalls in recent years – just like 42 other states. None of these 42 other states have TABOR on their books.

The source of the budget shortfall was a national recession, deepened by the September 11 terrorist attacks. The national recession had a large impact on the state's advanced technology industry, while September 11 hit the state's tourism industry and capital gains income hard.

Meanwhile, at a time when revenues fell, the Constitutional requirements of Amendment 23 required increased spending on K-12 education. In fact, state spending on K-12 increased 11.4 percent in FY 2002-03 (General Fund and State Education Fund) even though revenues fell. In addition, during FY 2002-03, the state was required to deposit \$248 million of General Fund dollars into the State Education Fund. (These funds would otherwise have gone to General Fund programs.) Thus, we must recognize that other programs were cut in order to fund the provisions of Amendment 23. This simple fact underscores how Amendment 23 has constricted our flexibility in addressing the budget shortfall.

Let me be clear; generously funding public education has been, and continues to be, one of my central priorities. Prior to Amendment 23, each of my budgets fully funded K-12 education for the first time in a decade. In fact, my budgets added 10 percent additional funding above inflation. However, by inflexibly requiring large increases in education spending, Amendment 23 leaves little room for deliberation about how to address all of Colorado's budget priorities.

It is in this context that I submit the FY 2004-05 budget. Here are some important highlights:

- The budget boosts K-12 total program education spending from the General Fund by 7 percent, or \$157.4 million. Thus, K-12 will receive approximately one-half of all new funding. Over the last six years, my budget fully funded education for inflation and enrollment, a commitment I began prior to the passage of Amendment 23. In addition, my budgets added 10 percent additional funding above inflation. K-12 will comprise 44 percent of the General Fund.
- Medicaid appropriations will increase 5.4 percent. The budget will provide funds to eliminate the cap on enrolling new children to the Children's Basic Health Plan and will reinstate prenatal care for low-income women who are not poor enough to qualify for Medicaid (those with incomes between 134 percent and 185 percent of poverty).
- To protect the people of Colorado and the men and women who work in our prisons, the Department of Corrections budget is increased 8.2 percent. In addition to funding new inmate growth, I am requesting funds to allow the Department to fill 50 vacant positions.
- I am committed to keeping higher education accessible to as many Coloradans as possible. This budget proposes a \$16.3 million increase in student financial aid. In addition, I am requesting a \$3.2 million increase to fund enrollment increases at higher education institutions.
- The FY 2004-05 budget invests \$4.4 million in Tony Grampsas grants to help at-risk youth (from both the General Fund and the Tobacco Fund). This is in addition to the \$4 million of the federal dollars I devoted to the program from the Jobs and Growth Tax Relief Reconciliation Act of 2003. Those one-time federal funds were awarded this week.
- A \$2.5 million increase in spending on tourism promotion to help revitalize Colorado's rural economy, bringing the total amount we spend on tourism promotion to \$5.4 million.
- To enhance public safety, this budget adds 27 new state troopers and invests \$2.4 million in the Colorado Bureau of Investigation to enhance Colorado's DNA testing capabilities through the use of an automated robotic system.
- To address the mental health needs of 870 additional Coloradans, this budget provides a \$2 million increase in mental health funding for the indigent population that does not qualify for Medicaid. In total, the budget provides mental health care for more than 10,300 such low-income individuals.
- A \$4 million increase for the developmental disabilities (DD) program to provide services to 101 additional citizens. Overall, the budget provides services to more than 7,140 developmentally disabled clients. Over the last 4 years, my budget has increased funding to assist an additional 393 developmentally disabled clients.
- A \$7 million increase for child welfare funding.

- A \$5.6 million increase funding for caseload growth and cost of living increases in aging services programs.
- \$500,000 to improve immunization rates throughout the state. This money will fund an advertising campaign to target low-immunization areas throughout the state to educate parents about the benefits of immunizing their children.
- \$713,000 to lessen the wait times at driver's license offices throughout the state.
- \$400,000 for grants to arts programs.
- \$100,000 for affordable housing grants. These affordable housing grants may be matched by \$1 million in local and federal funds to provide a total of \$1.1 million in new funds for affordable housing.
- \$44 million to fund total compensation increases for state employees. This includes an average increase of \$1,500 per employee in the amount the state covers for health, life, and dental insurance, up 50 percent. In addition, the budget funds \$12 million of performance salary adjustments.

This budget is based on three proposed law changes. First, I propose that the General Assembly lower the FY 2004-05 capital construction transfer from \$101.8 million that is currently in statute to \$3.6 million. Accordingly, the Office of State Planning and Budgeting submitted capital construction requests that were minimal. Knowing that we would need to reduce capital funding, I utilized some federal dollars to fund the most serious controlled maintenance issues throughout the state.

Second, we propose to eliminate the scheduled \$138.4 million transfer from the General Fund to the Controlled Maintenance Trust Fund.

Finally, we are proposing taking the common-sense approach that numerous other states have taken to securitize the state's tobacco payments. We would sell the state's share of tobacco settlement receipts in return for a lump sum payment of roughly \$800 million. We propose to use a small amount of this money in FY 2004-05, \$80 million, then put the remainder of this money (90 percent) in a Rainy Day Fund. The Rainy Day Fund would be available to fund some core projects currently being funded from tobacco payments, but the majority would be set aside to provide a cushion for future General Fund revenue fluctuations. I look forward to working with the Joint Budget Committee to craft a plan that will benefit Colorado for years to come.

This is a bold step, but there are many good reasons to do this. First, it is becoming increasingly clear that relying on these tobacco payments in the future will be a risky proposition. Witness the recent lawsuit in Illinois, where a judge awarded a preliminary judgment of \$10 billion against tobacco companies. The mere announcement of the award threatened the future tobacco payments to the states. Given the multitude of lawsuits against tobacco companies, it is likely that future payments will be at risk as well. It is far better to take a lump sum payment now instead of relying on uncertain future revenues.

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Meanwhile, without securitization, the Legislature will be able to fund only three priorities: K-12 education will be required to increase \$157 million, Medicaid, up \$46 million (this would necessitate cuts in the program), and adult and youth corrections, up \$24 million. Indeed, without this plan, K-12 funding would require 69 percent of the new revenues available. Although improved revenues help the budget in FY 2004-05, they are not sufficient to allow for all of the investments I have proposed.

Tobacco securitization allows us to make investments in our children through the Tony Grampsas program, the Children's Basic Health Plan, and financial aid to expand opportunities for higher education. Securitization allows us to increase funding for the developmentally disabled, the elderly, child welfare programs, and the mentally ill. Securitization makes funds available for low-income housing, for arts programs, and restores funding for prenatal care to low-income women. Most important, this plan creates a substantial Rainy Day Fund to help in the event of future revenue downturns, thus stabilizing the negative impacts to General Fund programs. I urge your support of this common-sense solution. More detailed discussions of the proposed FY 2004-05 budget are summarized in the attachment.

Sincerely,

Bill Owens  
Governor

## **Summary of the FY 2004-05 Budget for the Major Departments**

### **K-12 Education**

- ✓ K-12 Education comprises 44 percent of the General Fund. (See Graph 1.)
- ✓ K-12 Education funding remains a high priority for my administration. For the sixth consecutive year, my budget fully funds K-12 education for inflation, something that had not been accomplished in a decade prior to my administration.
- ✓ General Fund total program for K-12 is proposed to increase 7.0 percent in FY 2004-05. Amendment 23 requires overall state and local K-12 spending to increase 3.5 percent. However, the General Fund for K-12 will need to grow 7.0 percent in FY 2004-05 in order to compensate for slow local property tax growth and to maintain solvency in the State Education Fund.
- ✓ An additional one percent as required by Amendment 23 is equivalent to \$43.2 million.
- ✓ From FY 1998-99 through FY 2003-04, state spending on K-12 education increased by \$870.4 million, while state and local spending together rose more than \$1.1 billion. State spending on K-12 education has increased more than 8 percent above inflation.

### **Medicaid**

- ✓ Medicaid comprises 21 percent of the state General Fund budget and Medicaid premiums more than quadrupled since 1990.
- ✓ After decreasing in the mid-1990s, the Medicaid caseload began growing in FY 1999-00 and continues to grow today. The Medicaid caseload increased 10.8 percent in FY 2002-03. The caseload will increase 7.9 percent in FY 2003-04 and is expected to increase 5.8 percent in FY 2004-05. The fastest growth areas in the Medicaid caseload are low-income adults and children, as well as non-citizens. (See Graph 2.)
- ✓ While the elderly and disabled comprise less than one-third of the Medicaid population, they are more than two-thirds of the cost of Medicaid because they use more costly services such as nursing homes.
- ✓ Overall, the General Fund Medicaid budget increases 5.4 percent in FY 2004-05.
- ✓ Funding for the Children's Basic Health Plan (CHP+) will increase \$5.3 million in General Fund. Enrollment in the CHP+ program increased by 67 percent since March 2001. Because of budget challenges, the General Assembly passed legislation to cap the number of children served by this program in November 2003 and to suspend the prenatal CHP+ program for the remainder of the FY 2003-04 fiscal year. The proposed FY 2004-05 budget provides funds to eliminate the cap and to reinstate the prenatal program. We expect 50,050 children to be served by the program in FY 2004-05 and more than 1,150 expectant mothers will receive services.

### **Higher Education**

- ✓ Higher Education represents 11 percent of the state's General Fund budget. The budget request is for a 4.7 percent General Fund increase and a 6.4 percent total funding increase, which includes tuition increases.
- ✓ The FY 2004-05 budget increases financial aid by \$16.3 million.
- ✓ The budget also funds \$3.2 million for increased enrollment at the institutions and provides \$7.4 million in base funding for the State Colleges.
- ✓ We are requesting a \$400,000 increase in funding for the Arts Council.

### **Human Services**

- ✓ Human Services is 8 percent of the General Fund. In total, we are requesting \$1,854 million for the department.
- ✓ The budget proposes increased funding of \$4.0 million for the developmental disabilities program, thus increasing clients who will be served by 101. In total, more than 7,140 developmentally disabled clients will be served by the state.
- ✓ We are requesting a \$2.0 million increase to provide mental health funding for the indigent population that does not qualify for Medicaid. These funds will allow the state to address the mental health needs of an additional 870 Coloradans.
- ✓ A \$7.0 million increase for child welfare funding. If approved, the state will provide funding for services to 26,942 children through this program.
- ✓ A \$5.6 million increase funding for caseload growth and cost of living increases in aging services programs.

### **Corrections**

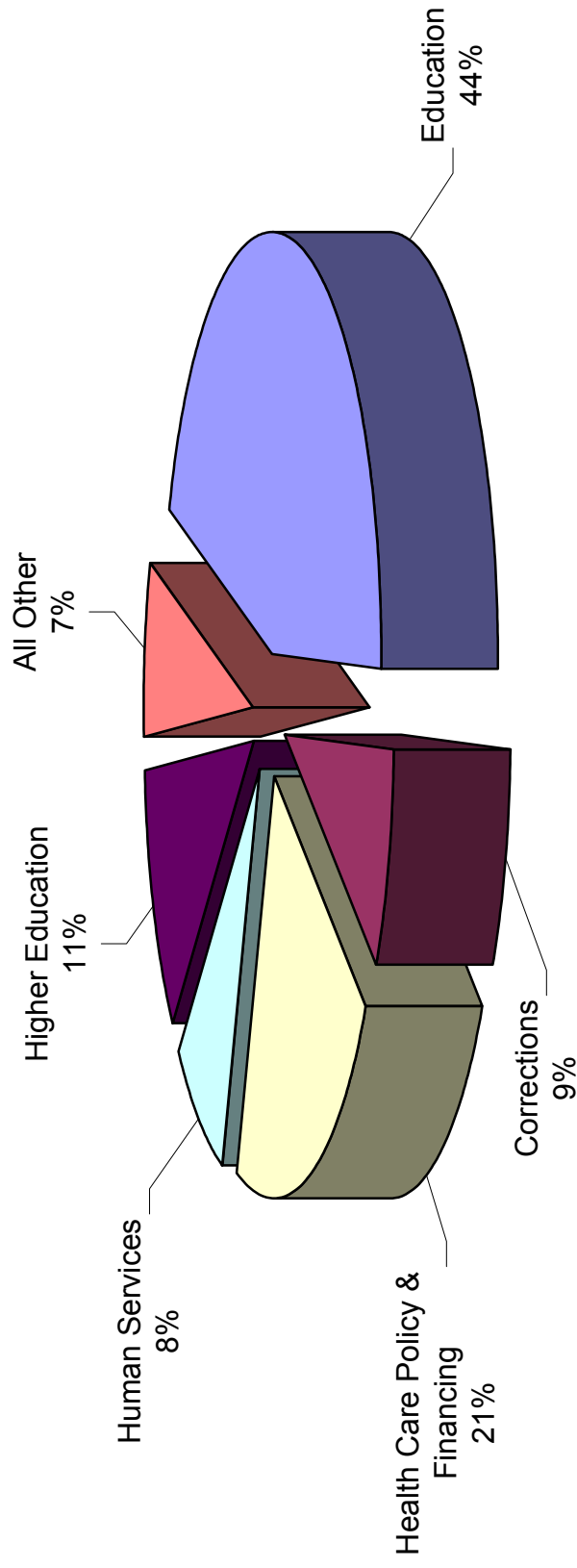
- ✓ The Department of Corrections comprises 9 percent of the state's General Fund.
- ✓ I am committed to maintaining and improving public safety in Colorado so that all citizens can more safely walk the streets. Toward that end, I am requesting an 8.2 percent increase in General Fund for the Department of Corrections. This includes funds to allow the department to fill 50 of its 200 vacant positions.
- ✓ We are expecting the prison population to grow 4.9 percent in FY 2004-05 after a 5.0 percent growth rate in FY 2003-04.

# Table 1: Appropriations by Executive Department

| Executive Department        | FY 2003-04 Appropriation |                          |                 | Total FY 2004-05 Recommendation |                          |                 | Percent Change From FY 2003-04 Appropriation |                          |                 |             |             |             |
|-----------------------------|--------------------------|--------------------------|-----------------|---------------------------------|--------------------------|-----------------|--|--------------------------|-----------------|-------------|-------------|-------------|
|                             | GF                       | Total - All Funds        | FTE             | GF                              | Total - All Funds        | FTE             | GF   | Total - All Funds        | FTE             |             |             |             |
| Agriculture                 | \$ 4,152,768             | \$ 29,015,173            | 271.2           | \$ 4,222,866                    | \$ 29,801,953            | 278.2           | 1.7%   | 29,801,953               | 278.2           | 1.7%        | 2.7%        | 2.6%        |
| Corrections                 | 469,771,508              | 536,570,420              | 5,825.6         | 508,425,587                     | 574,180,395              | 5,951.4         | 8.2%   | 574,180,395              | 5,951.4         | 8.2%        | 7.0%        | 2.2%        |
| Education                   | 2,417,662,657            | 3,252,576,581            | 419.7           | 2,579,916,726                   | 3,436,069,715            | 434.6           | 6.7%   | 3,436,069,715            | 434.6           | 6.7%        | 5.6%        | 3.6%        |
| Governor's Office           | 10,291,090               | 30,899,259               | 103.9           | 10,491,808                      | 29,948,886               | 103.9           | 2.0%   | 29,948,886               | 103.9           | 2.0%        | -3.1%       | 0.0%        |
| Tourism Promotion           | 2,874,129                | 2,924,129                | 3.0             | 5,373,810                       | 5,423,810                | 3.0             | 87.0%  | 5,423,810                | 3.0             | 87.0%       | 85.5%       | 0.0%        |
| Health Care P&F             | 1,177,579,257            | 2,869,398,376            | 200.4           | 1,241,339,041                   | 2,979,193,934            | 197.3           | 5.4%   | 2,979,193,934            | 197.3           | 5.4%        | 3.8%        | -1.5%       |
| Higher Education            | 591,428,310              | 1,648,303,692            | 18,501.9        | 618,986,734                     | 1,753,194,427            | 18,501.9        | 4.7%   | 1,753,194,427            | 18,501.9        | 4.7%        | 6.4%        | 0.0%        |
| Human Services <sup>1</sup> | 460,282,338              | 1,805,999,555            | 4,513.1         | 463,167,759                     | 1,853,822,082            | 4,549.2         | 0.6%   | 1,853,822,082            | 4,549.2         | 0.6%        | 2.6%        | 0.8%        |
| Labor and Employment        | 0                        | 115,831,678              | 1,076.4         | 0                               | 135,053,249              | 1,129.8         | NA   | 135,053,249              | 1,129.8         | NA          | 16.6%       | 5.0%        |
| Local Affairs               | 4,779,954                | 173,961,086              | 172.1           | 4,953,519                       | 178,180,810              | 174.0           | 3.6%   | 178,180,810              | 174.0           | 3.6%        | 2.4%        | 1.1%        |
| Military Affairs            | 3,839,292                | 127,373,906              | 1,154.8         | 4,250,193                       | 128,720,668              | 1,158.8         | 10.7%  | 128,720,668              | 1,158.8         | 10.7%       | 1.1%        | 0.3%        |
| Natural Resources           | 19,555,677               | 168,863,311              | 1,532.0         | 21,212,682                      | 172,019,229              | 1,536.0         | 8.5%   | 172,019,229              | 1,536.0         | 8.5%        | 1.9%        | 0.3%        |
| Personnel                   | 7,888,698                | 163,720,490              | 568.8           | 8,393,242                       | 168,225,545              | 574.8           | 6.4%   | 168,225,545              | 574.8           | 6.4%        | 2.8%        | 1.1%        |
| Public Health & Envir.      | 12,447,640               | 257,619,706              | 1,094.6         | 15,296,441                      | 293,303,980              | 1,120.8         | 22.9%  | 293,303,980              | 1,120.8         | 22.9%       | 13.9%       | 2.4%        |
| Public Safety               | 54,178,541               | 195,521,062              | 1,247.4         | 55,087,339                      | 204,572,251              | 1,292.7         | 1.7%   | 204,572,251              | 1,292.7         | 1.7%        | 4.6%        | 3.6%        |
| Regulatory Agencies         | 1,057,650                | 67,384,815               | 518.2           | 1,045,022                       | 62,205,642               | 520.1           | -1.2%  | 62,205,642               | 520.1           | -1.2%       | -7.7%       | 0.4%        |
| Revenue                     | 59,034,816               | 524,017,338              | 1,455.0         | 61,118,520                      | 524,358,505              | 1,475.4         | 3.5%   | 524,358,505              | 1,475.4         | 3.5%        | 0.1%        | 1.4%        |
| Transportation              | 0                        | 846,517,416              | 3,297.2         | 0                               | 793,515,740              | 3,301.2         | NA   | 793,515,740              | 3,301.2         | NA          | -6.3%       | 0.1%        |
| <b>Total Executive</b>      | <b>\$ 5,296,824,325</b>  | <b>\$ 12,816,497,993</b> | <b>41,955.3</b> | <b>\$ 5,603,281,289</b>         | <b>\$ 13,321,790,821</b> | <b>42,303.1</b> | <b>5.8%</b>                                  | <b>\$ 13,321,790,821</b> | <b>42,303.1</b> | <b>5.8%</b> | <b>3.9%</b> | <b>0.8%</b> |

**Notes:** <sup>1</sup> The General Fund increase in the Department of Human Services does not include the General Fund increases in Human Services' Medicaid programs. The General Fund for these programs must be appropriated to the Department of Health Care Policy and Financing and is then transferred to Human Services. The General Fund for Human Services' Medicaid programs, appropriated to Health Care Policy and Financing, is increasing 3.5 percent. As a result, the General Fund increase for all Human Services' programs is 1.7 percent.

# Graph 1 FY 2004-05 Major Department Share of Total General Fund Budget



All Other: Agriculture 0.07%, Governor's Office 0.27%, Labor & Employment 0.0%, Local Affairs 0.08%, Military & Veterans Affairs 0.07%, Natural Resources 0.36%, Personnel & Administration 0.14%, Public Health & Environment 0.26%, Public Safety 0.94%, Regulatory Agencies 0.02%, Revenue 1.04%, Transportation 0.0%, and Non-Executives 4.37%.



# Graph 2: Medicaid Caseload

**Estimate**

