

STATE OF COLORADO

EXECUTIVE CHAMBERS

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Bill Owens
Governor

November 9, 2004

Senator Abel Tapia, Chairman
Joint Budget Committee
200 E. 14th Avenue, 3rd Floor
Denver, CO 80203

Dear Senator Tapia,

I am pleased to submit the FY 2005-06 budget to the Joint Budget Committee. For the second year in a row, it is clear that Colorado economic activity is gaining momentum and the state is on a solid growth path. Reasons for optimism include an expanding labor market, increases in personal income, healthy construction activity, and rising retail sales. The September 2004 Colorado unemployment rate dropped to 4.6 percent, down 1.1 percentage points from the 5.7 percent rate posted in the state in September 2003 and 0.8 percentage points below the September 2004 national unemployment rate. Key industries registering job gains are the energy, financial services, educational services, and health services sectors. Additional signs of economic growth include:

- In September 2004, there were 31,200 more jobs in Colorado than there were in September 2003.
- Retail sales (consumer spending) in Colorado increased 4.1 percent through August 2004 compared with August 2003.
- Colorado personal income growth was 5.3 percent in the second quarter of 2004, the largest year-over-year increase since the second quarter of 2001.
- Colorado per capita income was eighth highest in the nation in 2003 and 2002.
- *Residential* home permits issued in Colorado through September 2004 are 21.0 percent more than through September 2003. The value of *nonresidential* construction through September 2004 is 20.4 percent more than through September 2003.
- The Colorado economy is showing increasing strength and it is reflected in our revenue figures. Through October 2004, FY 2004-05 individual income tax receipts are up 5.4 percent, while excise taxes are up 6.0 percent.

At this time last year, we predicted that FY 2005-06 General Fund revenues would require some augmentation to meet the basic requirements of Amendment 23, Medicaid, and public safety needs. Those predictions have been borne out. While the economy is expected to grow

in FY 2005-06 and General Fund revenues will increase 5.5 percent, the amount of General Fund available under current law is approximately \$80 million or a 1.4 percent increase. Based on our review of the needs presented to me by the departments, I believe appropriations need to increase \$201 million or 3.5 percent. This includes a 3.5 percent average increase for the departments of Law, Treasury, Legislature, and the Judicial Branch.

One of the highlights of the recent recovery is the low inflation rate, which brings numerous benefits to the general economy. Low inflation allows firms and households to plan expenditures more easily than in a climate of volatile prices. Low inflation also allows productivity gains to raise the standard of living more quickly. Nonetheless, the low inflation rate has made for some challenges in the FY 2005-06 budget. Because of dramatically low inflation expected in 2004, the State's TABOR limit on revenue growth for FY 2005-06 (determined by inflation plus population growth) is projected at just 1.1 percent. For the first half of the year, Colorado experienced an average drop in prices of -0.7 percent. We are estimating that inflation for the year will reach 0.1 percent and population growth is expected to be 1.0 percent.

As we look to next year and beyond, both short- and long-term challenges remain. In the short-term, low inflation and our State constitutional (Amendment 23) and federal mandates (Medicaid) require spending to increase above what is available. In the long-term, the interaction of TABOR, Amendment 23, and the impacts of the recession will require a recalibration to put the budget on sure footing again.

Since current law only allows \$80 million in new revenue and needs are expected to exceed this amount, I am again proposing the Legislature securitize all or a portion of the State's tobacco settlement receipts. While securitization was not successful in the last legislative session, I believe that the policy goals we tried to achieve remain important. Specifically, securitization guarantees that we will receive a substantial lump sum payment from a revenue stream that is becoming increasingly volatile. Further, it allows us to stabilize the budget on a one-time basis and establish a rainy day fund.

In FY 2005-06, \$80 million only covers about 54 percent of the expected growth in Medicaid and K-12 education, leaving those programs under-funded and the remaining state priorities without any funding. Absent a significant increase in either inflation or population growth, the only alternative to securitization is to make significant cuts in State programs. Since two-thirds of the budget is essentially off-limits because of State constitutional (Amendment 23) and Federal mandates (Medicaid), we are left with only a small part of the budget to find any savings.

I know that some will criticize the use of the tobacco funds for operating needs as shortsighted. That is why I am also asking that the General Assembly combine securitization with a referred measure to the voters that asks to retain a reasonable and defensible portion of the FY 2004-05 and FY 2005-06 TABOR surpluses. I believe a successful "de-Brucing" would contain specific dollar amounts for specific programs (notably for higher education and transportation), thereby allowing the voters to see exactly where their tax dollars are going.

I believe this is the right plan for a number of reasons. First, we are using the existing mechanism provided for in TABOR, i.e., asking permission to retain the surplus before we

spend it. Second, voters around the state are comfortable with this mechanism, as evidenced by the numerous successful local de-Brucings over the years. And most importantly, contrary to what some believe, this approach *is* a long-term solution that keeps the core principles of TABOR intact, because it provides an annually recurring amount of revenue that will increase with population and inflation. For example, asking to retain \$200 million in TABOR surplus would increase the State's spending limit and in just five years result in over \$1 billion in additional revenue over that time.

I believe this two-pronged approach is the necessary and prudent solution to the financial pressures facing the State. I look forward to working with the General Assembly on the details of these proposals.

FY 2005-06 Budget Request

While I have included a detailed discussion of each department's request, some of the highlights of the budget include:

Education (K-12 and Higher Education)

The **K-12** General Fund increase is 1.1 percent in FY 2005-06. This includes a 1.0 percent increase in General Fund for the purposes of satisfying Amendment 23. Amendment 23 requires overall K-12 spending to increase 2.0 percent, but because property tax growth is slow, the state share will increase 2.9 percent.

For **Higher Education**, we are requesting \$3.9 million in need-based financial aid and \$3.3 million to allow CCHE to set the College Opportunity Fund stipend at \$2,400 per student. We are also requesting \$73.2 million of additional cash funds exempt spending authority for enrollment and tuition/fee increases in FY 2005-06. Excluding enrollment, this represents a 5.5 percent increase on both non-tuition and tuition revenues.

Health Care

We are recommending a 9.5 percent increase in General Fund for the **Department of Health Care Policy and Financing**. In FY 2003-04, the Medicaid caseload increased 10.7 percent. We expect the caseload to rise 7.1 percent in FY 2004-05 and 4.7 percent in FY 2005-06. The challenges in this budget include rapid growth in the caseload, rising costs of medical services, and demands for services in the Children's Basic Health Plan.

As part of the General Assembly's FY 2003-04 budget balancing actions, child enrollment in the Children's Basic Health Plan (CBHP) was capped in November 2003 and the prenatal program was stopped. On July 1, 2004, the cap on child enrollment in the CBHP was lifted and the prenatal program began providing health care services to low-income pregnant women once again. We included \$2.6 million General Fund for the CBHP in the FY 2005-06 budget. This will allow an additional 7,142 children and 901 women to receive health care services. Under the requested budget, the CBHP will provide 51,929 low-income children with health care services by the end of FY 2005-06.

In the **Department of Human Services**, we are requesting:

- \$7,414,301 in total dollars (of which \$2,808,036 is General Fund), to support caseload growth in Child Welfare;
- \$1,091,091 in total dollars (of which \$574,399 is General Fund), to support caseload growth in the Division of Youth Corrections;
- \$2,835,837 in total dollars (of which \$1,299,582 is General Fund), to support an estimated 88 new Developmental Disabilities resources for children and adults;
- an increase of \$11,000,000 in federal funds to support the Temporary Aid for Needy Families County Block Grant.

Public Safety

The **Department of Corrections** accounts for nine percent of the State's General Fund budget and will be receiving 10 percent of the new funds available. We are recommending a 3.9 percent increase in the Department's General Fund. In FY 2003-04, the state's prison population grew 3.8 percent, much slower than the 7.2 percent average rate of the previous four years.

Based on Legislative Council Staff Interim Projections (July 2004), the male prison population is expected to increase by 72 inmates per month in FY 2004-05 and then 77 inmates per month in FY 2005-06. However, with the completion of the State Pre-parole Release and Revocation Facilities beds in FY 2004-05 and other expansions of private beds, we do not expect that the male prison population will exceed capacity in FY 2005-06.

The expansion of private prison beds at Brush Correctional Facility, which houses female inmates, increased the capacity for females by 75 beds. Therefore, with a projected rate of growth of female inmates of 6.5 per month and 7.7 per month in FY 2004-05 and FY 2005-06 respectively, the female prison population will meet the capacity of all available prison beds in November 2006. Because the projected increase in female inmates is slower than previously projected, and with the additional availability of private prison beds for female inmates, the expansion of the former YOS facility (to be named La Vista Correctional Facility) will be delayed one year.

In the **Department of Public Safety**, we are requesting funds for the equivalent of nine new state troopers. In addition, we are requesting resources to complete tests for criminal trials and for ongoing operating expenses associated with implementing and maintaining the DNA robotics equipment for the Colorado Bureau of Investigation's laboratory.

Other Areas

Lawsuits in a variety of areas are a constant concern. Many of the lawsuits have not yet been finalized, but they do represent potential liabilities. A known obligation at this time is from the *Kansas v. Colorado* lawsuit. We are awaiting a final decision on the amount of money owed to Kansas, though estimates range from \$29 to \$54 million. Because we may be required to pay this judgment as early as this fiscal year, I have earmarked \$31 million in severance tax collections that would otherwise have been distributed to programs in the Department of

Natural Resources for this purpose. While it is difficult to divert these funds from their expected uses, the dramatic increase in severance tax collections in FY 2003-04 allows us to ensure that funding for these programs remains at the current levels even with this diversion.

Tobacco Tax. Passage of Amendment 35, the tobacco tax, presents us with an opportunity to increase the health and welfare of our citizens. I want to share the principles I will be using to evaluate proposals as they move forward. First, we have a new opportunity to use the tobacco tax dollars earmarked for cancer and chronic disease to address health disparities in our state. Second, I believe the majority of the dollars earmarked for cessation should be targeted at children to prevent them from becoming addicted to tobacco and helping those who are using tobacco quit. Another opportunity is to expand direct access to health care services in our rural communities. Finally, we should use this money to leverage additional federal money whenever possible to maximize the impact of the funds.

While there will be significant debate about where we should spend these dollars, I believe the first three priorities we should fund with these dollars are:

- expansion of eligibility of the Children's Basic Health Plan to 200% of federal poverty thereby insuring an additional 19,000 children and 800 pregnant women;
- expansion of breast and cervical cancer screening sites. At the present time, we estimate that only 25 to 30 percent of eligible women receive screening services; and
- restoration of Medicaid benefits to legal immigrants.

Capital Construction. Because of the recovery in the economy in FY 2003-04, the General Fund ended the year with about \$123 million in collections above the four percent reserve. By statute these funds have been allocated to transportation (67 percent) and to **capital construction** (33 percent). The Colorado Transportation Commission will prioritize the distribution to transportation. Meanwhile, of the one-third distribution to capital, I am recommending nine projects totaling \$42 million. Of this amount, I propose that we allocate \$34 million to controlled maintenance. Given the reductions in capital spending in recent years, it is critical that we maintain our taxpayer-funded assets to prevent loss of life and to avoid preventable repairs at greater expense in the future. The State owns assets that are insured for \$5.8 billion and this request represents less than one percent of our insured value. Given the one-time nature of the funds, I believe it is prudent to focus on necessary maintenance rather than on new construction.

I look forward to a productive budget cycle with the Joint Budget Committee.

Sincerely,

Bill Owens
Governor

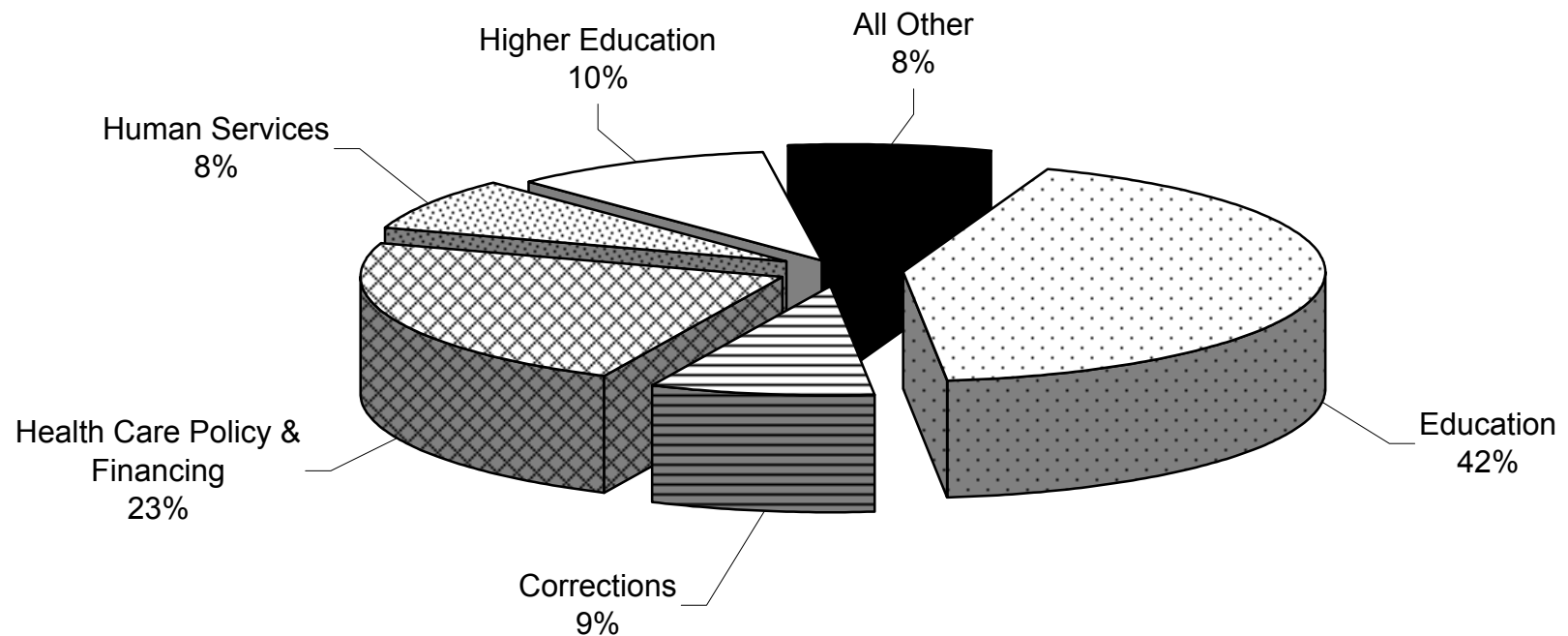
FY 2005-06 Requested Appropriations by Executive Department

Executive Department	Total FY 2005-06 Request		Percent Change From FY 2004-05 Appropriation		Total FY 2004-05 Appropriation	
	GF	Total - All Funds	GF	Total - All Funds	GF	Total - All Funds
Agriculture	\$ 4,476,128	\$ 30,532,462	5.9%	2.6%	\$ 4,227,529	\$ 29,769,679
Corrections	\$ 519,830,538	\$ 578,685,695	3.9%	3.8%	\$ 500,199,822	\$ 557,761,982
Education	\$ 2,567,041,310	\$ 3,569,232,126	1.1%	4.3%	\$ 2,539,580,382	\$ 3,422,742,177
Governor's Office	\$ 15,969,020	\$ 32,282,120	0.8%	-8.5%	\$ 15,838,358	\$ 35,298,168
Health Care P&F	\$ 1,378,441,190	\$ 3,230,478,175	9.5%	7.2%	\$ 1,258,646,139	\$ 3,014,426,097
Higher Education*	\$ 595,354,219	\$ 1,746,978,905	1.3%	4.8%	\$ 587,972,772	\$ 1,666,284,824
Human Services	\$ 471,549,228	\$ 1,694,904,083	1.3%	1.8%	\$ 465,503,517	\$ 1,665,692,260
Labor and Employment	\$ -	\$ 149,216,290	NA	13.3%	\$ -	\$ 131,740,753
Local Affairs	\$ 4,989,275	\$ 178,324,745	1.5%	0.2%	\$ 4,916,082	\$ 178,037,497
Military Affairs	\$ 4,061,057	\$ 131,698,268	2.8%	2.4%	\$ 3,952,227	\$ 128,660,117
Natural Resources	\$ 23,437,215	\$ 179,119,192	4.9%	1.4%	\$ 22,352,945	\$ 176,615,288
Personnel	\$ 8,351,288	\$ 163,123,127	-0.5%	-6.1%	\$ 8,393,430	\$ 173,799,851
Public Health & Envir.	\$ 13,172,894	\$ 284,470,070	1.0%	1.6%	\$ 13,044,693	\$ 279,904,420
Public Safety	\$ 58,007,306	\$ 219,355,696	2.1%	-0.3%	\$ 56,810,015	\$ 220,059,557
Regulatory Agencies	\$ 1,113,102	\$ 62,508,311	7.8%	-3.5%	\$ 1,032,389	\$ 64,767,855
Revenue	\$ 66,261,860	\$ 525,732,851	14.9%	0.4%	\$ 57,675,506	\$ 523,449,456
Transportation	\$ -	\$ 823,547,533	NA	-10.2%	\$ -	\$ 917,355,011
Total Executive	\$ 5,732,055,630	\$ 13,600,189,649	3.5%	3.1%	\$ 5,540,145,806	\$ 13,186,364,992

* For comparison purposes, the FY 2005-06 total funds request for higher education does not include \$492,738,306 in complementary spending authority.

Graph 1

FY 2005-06 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 0.39%, Personnel & Administration 0.14%, Public Health & Environment 0.22%, Public Safety 0.97%, Regulatory Agencies 0.02%, Revenue 1.1%, Transportation 0.0%, and Non-Executives 4.4%.

Department of Agriculture

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$29.8 million and supports seven Long Bill groups or divisions. Of the total appropriation, 14.2 percent is from the General Fund and 75.0 percent is from cash funds.

In FY 2004-05, the Department received a 2.8 percent increase in General Fund and 0.1 percent of the statewide General Fund appropriation.

The Governor is requesting a total budget of \$30.5 million, including \$4.5 million of General Fund. This represents a 5.9 percent increase in the General Fund appropriation to the Department.

New Request Summary

The Governor recommends:

- A cash fund to cash fund exempt switch of \$3,791,852 for the Brand Board. The Brand Board was granted enterprise status through H.B. 03-1351 to take effect July of 2004. The Department requested that its status be reflected in the Long Bill; and
- A funding switch for the State Fair from \$8,260,176 in cash funds to \$8,260,176 cash funds exempt to reflect its enterprise status. Whenever it receives less than 10 percent of its revenues from state or local grants, the State Fair is eligible for enterprise status.

Department of Corrections

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$557.8 million and supports eight Long Bill groups or divisions. Of the total appropriation, 89.7 percent is from the General Fund and 9.4 percent is from cash funds.

In FY 2004-05, the Department received a 1.2 percent increase in General Fund and 8.6 percent of the statewide General Fund appropriation.

The Governor is requesting a total budget of \$578.7 million including \$519.8 million of General Fund. This represents a 3.9 percent increase in the General Fund appropriation to the Department.

New Request Summary

The Governor recommends:

- \$4.0 million General Fund and \$5.0 million total funds for increases in the External Capacity Caseload; this is primarily funding for payments to private prisons for the projected increase of 900 inmates in FY 2005-06. Included in this request is the recommendation to decrease the per diem rate paid to private prisons by \$.23 or \$320,000. This will be used to fund 5.0 FTE in the Department of Correction's Inspector General subprogram for investigators specifically assigned to the private prisons. There is also an increase of \$0.2 million General Fund to add an additional 2.0 FTE to the Private Prison Monitoring Unit;
- \$1.3 million General Fund for an increase in funding for Medical/Pharmaceutical services for inmates within state facilities;
- \$2.0 million General Fund for an increase of 21.1 FTE for Parole and Parole ISP Officers, and additional funding for parole contract services (services for parolees with special needs; sexual offenders, mentally ill); and
- \$1.1 million General Fund for an increase of 3.1 FTE for Community and Community ISP Officers, and additional funding for community contract services (services for inmates in community corrections with special needs; sexual offenders, mentally ill).

Department of Education

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$3.4 billion and supports four Long Bill groups or divisions. Of the total appropriation, 74.2 percent is from the General Fund and 12.1 percent is from federal funds.

In FY 2004-05, the Department received a 5.0 percent increase in General Fund and 43.6 percent of the statewide General Fund appropriation.

The Governor is requesting a total budget of \$3.6 billion, including \$2.6 billion of General Fund. This represents a 1.1 percent increase in the General Fund appropriation to the Department.

Amendment 23 requires overall K-12 spending to increase 2.0 percent, but because property tax growth is slow, the state share (General Fund and State Education Fund) will increase 2.9 percent.

New Request Summary

The Governor recommends:

- \$79.5 million increase in the State Share of Districts' Total Program to meet the requirements of Amendment 23, including a \$24.1 million increase in General Fund. This recommendation generates a 2.0 percent increase in Total Program, a 2.9 percent increase in the State Share of Districts' Total Program, and a 1.0 percent increase in the General Fund appropriation. Based on the OSPB forecast, the five percent annual General Fund growth requirement of Amendment 23 will not be applicable in FY 2005-06;
- A \$1.8 million increase in categorical funding to meet the requirements of Amendment 23. The Governor recommends funding this request with monies from the State Education Fund as follows:
 - ◆ 1.4 percent increase (\$1.2 million) to Special Education – Children with Disabilities;
 - ◆ 1.4 percent increase (\$54,338) to English Language Proficiency Program;
 - ◆ 1.4 percent increase (\$87,622) to Special Education – Gifted & Talented Children;
 - ◆ 1.1 percent increase (\$69,137) to Expelled & At-risk Student Services Grant Program;
 - ◆ a 0.7 percent increase (\$269,220) to Public School Transportation; and
 - ◆ a 0.7 percent increase (\$129,737) to State Assistance for Vocational Education.
- A \$2.9 million General Fund increase for the Colorado Student Assessment Program to backfill for federal funds that are needed to develop student assessments required by the federal No Child Left Behind Act of 2001; and
- A \$77,138 General Fund increase for the Colorado School for the Deaf and the Blind to pay for increased utility costs.

Department of Health Care Policy and Financing

Operating Budget Overview

The FY 2004-05 appropriation to the Department, including Medicaid funds transferred to other departments, is \$3.0 billion and supports six Long Bill groups or divisions. Of the total appropriation, 41.8 percent is from the General Fund and 49.1 percent is from federal funds.

In FY 2004-05, the Department received a 2.2 percent increase in General Fund and 21.6 percent of the statewide General Fund appropriation.

The Governor is requesting a total budget of \$3.2 billion, including \$1.4 billion of General Fund. This represents a 9.5 percent increase in the General Fund appropriation to the Department.

New Request Summary

The Governor recommends:

- A base funding increase of \$228.7 million in total funds, of which \$109.8 million is General Fund, for caseload and utilization increases associated with medical services for Medicaid clients. At the recommended level of funding, more than 406,000 clients will receive health care under Colorado's Medicaid program;
- An increase of \$2.6 million General Fund for the Children's Basic Health Plan. This funding level will allow an additional 7,142 children and 901 women to receive health care services. Under the requested budget, the CBHP will provide 51,929 low-income children with health care services by the end of FY 2005-06; and
- A total funds increase of \$579,600, of which \$56,221 is General Fund, to hire consultants to assist the Department with the federally mandated re-procurement of the Medicaid Management Information System (MMIS) fiscal agent contract.

Department of Higher Education

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$1.7 billion and supports nine Long Bill groups or divisions. Of the total appropriation, 35.3 percent is from the General Fund and 57.6 percent is from cash funds.

In FY 2004-05, the Department received a 0.6 percent decrease in General Fund and 10.1 percent of the statewide General Fund appropriation.

The Governor recommends a total budget of \$2.2 billion (when duplicate cash funds exempt spending authority is added), including \$595.4 million of General Fund. Without this duplicate spending authority, this represents a 1.3 percent increase in the General Fund appropriation to the Department.

New Request Summary

The Governor recommends:

- \$3.9 million General Fund for need-based and special purpose financial aid for higher education students. This represents a 5.1 percent increase in overall General Fund financial aid appropriations;
- \$3.3 million General Fund for undergraduate stipends under Senate Bill 04-189. This allows the Department to provide a \$2,400 stipend per full time student for all projected undergraduate students in FY 2005-06; and
- \$73.2 million in cash and cash funds exempt spending authority for enrollment and tuition increases. Excluding enrollment, this represents a 5.5 percent increase in tuition, fee, and other revenue.

Department of Human Services

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$1.7 billion and supports 11 Long Bill groups or divisions. Of the total appropriation, 28 percent is from the General Fund and 30 percent is from federal funds.

In FY 2004-05, the Department received a 1.5 percent increase in General Fund and 8.0 percent of the statewide General Fund appropriation.

The Governor recommends a total budget of \$1.7 billion, including \$472 million of General Fund. This represents a 1.3 percent increase in the General Fund appropriation to the Department.

New Request Summary

The Governor recommends:

- An increase of \$7,414,301 in total dollars (of which \$2,808,036 is General Fund), to support caseload growth in the capped Child Welfare Block Grant;
- An increase of \$1,091,091 in total dollars (of which \$574,399 is General Fund), to support caseload growth in the Division of Youth Corrections;
- An increase of \$2,835,837 in total dollars (of which \$1,299,582 is General Fund), to support an estimated 88 new Developmental Disabilities resources for children and adults;
- An increase of \$2,100,000 in Cash Fund spending authority, to support the Department's compliance in setting up Performance and Collaborative Management Incentives pursuant to H.B. 02-1138 and H.B. 04-1451;
- An increase of \$11,000,000 in federal funds to support the Temporary Aid for Needy Families County Block Grant;
- An increase of \$170,140 in total funds (of which \$153,126 is General Fund) and 3.0 FTE to provide an internal auditing function for the Department;
- An increase of \$438,158 in General Fund to increase Critical Post Staffing at two Division of Youth Corrections facilities by a total of 11.0 FTE; and
- A decrease of \$363,099 in total funds (of which \$196,038 is General Fund), to hire currently employed contractors as State FTE for the Colorado Trails project.

Department of Labor and Employment

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$131.7 million and supports five Long Bill groups or divisions. Of the total appropriation, none of the funding is from the General Fund and 67.4 percent is from federal funds.

In FY 2004-05, the Department received no General Fund.

The Governor is recommending a total request of \$149.2 million, including no General Fund.

New Request Summary

The Governor recommends:

- A reduction of \$340,380 federal funds spending authority and 4.2 FTE from the Inspector General's Office in the Executive Director's division. The requested base reduction is associated with an organizational realignment that will move the Unemployment Insurance Integrity program from the Inspector General's Office to the Unemployment Insurance (UI) program. The results will be UI Integrity staff who report directly to the program that they support and assurance that UI funding for fraud and overpayment is used exclusively by the UI program;
- A total funds increase of \$265,948 for Information Technology (IT) asset maintenance. The incremental funding will consist of \$149,594 in federal funds, \$96,417 in cash funds, and \$19,937 in cash fund exempt. The increase in funding will support the replacement of IT assets that have surpassed their projected useful life and the renewal of software licensing agreements. The request meets the IT asset replacement guidelines for costs and lifecycles established by the Office of Innovation and Technology. Without the requested increase, the Department will continue to fall behind on its IT asset replacement plan resulting in a greater number of outdated IT assets in operation and an increase in repair and employee down-time costs.

Department of Local Affairs

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$178 million and supports four Long Bill groups or divisions. Of the total appropriation, 2.8 percent is from the General Fund and 55.8 percent is from cash funds.

In FY 2004-05, the Department received a 3.4 percent increase in General Fund and 0.1 percent of the statewide General Fund appropriation.

The Governor is recommending a total request of \$178,324,745, including \$5.0 million of General Fund. This represents a 1.5 percent increase in the General Fund appropriation to the Department.

New Request Summary

The Department made no requests for new funding.

Department of Military and Veterans Affairs

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$128.7 million and supports seven Long Bill groups or divisions. Of the total appropriation, 3.1 percent is from the General Fund and 95.0 percent is from federal funds.

In FY 2004-05, the Department received a 1.4 percent increase in General Fund and less than 0.1 percent of the statewide General Fund appropriation.

The Governor is recommending a total request of \$131.7 million, including \$4.1 million of General Fund. This represents a 2.8 percent increase in the General Fund appropriation to the Department.

New Request Summary

The Governor recommends:

- An appropriation of \$20,000 General Fund, contingent on pending legislation, to fund a \$200 recruiting bonus for current members of the Colorado National Guard who recruit new members to the Guard;
- A one-time appropriation of \$42,094 General Fund to procure new radio repeaters for the Civil Air Patrol to meet Federal Communications Commission (FCC) regulatory changes; and
- An increase of \$3,840 General Fund to fund the increase in Hull Self Insurance rates being assessed to the Civil Air Patrol for their 16 aircraft.

Department of Natural Resources

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$176.6 million and supports nine Long Bill groups or divisions. Of the total appropriation, 12.7 percent is from the General Fund and 57.3 percent is from cash funds exempt.

In FY 2004-05, the Department received a 13.4 percent increase in General Fund and 0.1 percent of the statewide General Fund appropriation.

The Governor is recommending a total budget of \$179.1 million, including \$23.4 million of General Fund. This represents a 4.9 percent increase in the General Fund appropriation to the Department.

New Request Summary

The Governor recommends:

- 3.3 FTE for new water commissioners at a cost of \$191,192 General Fund;
- Refinancing the Division of Parks and Outdoor Recreation's vehicle leases with \$611,982 from the Parks Cash Fund due to strong cash fund revenue growth; and
- An additional \$500,000 cash funds exempt from the State Land Board Trust Fund to fund various projects, which are likely to increase revenue from properties held by the State Land Board. This in turn would increase revenue to fund K-12 education.

Department of Personnel and Administration

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$173.8 million and supports seven Long Bill groups or divisions. Of the total appropriation 0.1 percent is from the General Fund and 88.3 percent is from cash funds exempt.

In FY 2004-05, the Department received a 0.1 percent increase in General Fund and 0.1 percent of the statewide General Fund appropriation.

The Governor is recommending a total budget of \$163.1 million, including \$8.4 million of General Fund. This represents a 0.5 percent decrease in the Department's General Fund appropriation.

New Request Summary

The Governor recommends:

- 820 vehicle replacements on a statewide-basis, which results in an increase of \$1.8 million cash funds exempt for the Department (with a statewide General Fund increase of \$0.5 million); and
- Adjusting the Multi-use Network rates charged to departments, which results in a decrease of \$1.4 million in cash funds exempt (with a statewide General Fund reduction of \$0.4 million).

Department of Public Health and Environment

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$279.9 million and supports 11 Long Bill groups or divisions. Of the total appropriation, 4.7 percent is from the General Fund and 60.8 percent is from federal funds.

In FY 2004-05, the Department received a 4.2 percent increase in General Fund and 0.2 percent of the statewide General Fund appropriation.

The Governor is recommending a total budget of \$284.5 million, including \$13.2 million of General Fund. This represents a 1.0 percent increase in the General Fund appropriation to the Department.

New Request Summary

The Governor recommends:

- \$280,884 (cash funds exempt) and 0.8 FTE to acquire Tandem Mass Spectrometry technology for the Newborn Screening program. The technology will allow for the detection of approximately 20 additional disorders in newborns. Currently, the program tests for seven different disorders;
- In order to automate the recording and reporting of Consumer Protection Division inspections (retail food establishments, schools, childcare, dairy, wholesale food, tanning, and vector), the Governor recommends approval of \$72,382 total funds (\$65,127 cash funds exempt and \$7,255 Federal Funds) for a web-based database service. Automation will allow the division to identify potential food-borne outbreaks sooner, and comply with recommendations made by the State Auditor;
- An increase for the Laboratory's Chemistry and Microbiology operating line. With an additional \$135,000 (cash funds), the Laboratory will be able to meet increasing costs for medical and laboratory supplies in order to perform a variety of activities central to the Department's mission; and
- An additional \$24,749 (cash funds) for the Air Ambulance Licensure program is recommended by the Governor. The program, which began in FY 2004-05, is under-funded due to a significant underestimation in the enabling legislation's fiscal note for the number of entities that would be affected by licensure requirements. With sufficient funding for FY 2005-06, the Department will be able to ensure compliance with regulations and address customer complaints against air medical service providers.

Department of Public Safety

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$220.1 million and supports 5 Long Bill groups or divisions. Of the total appropriation, 25.8 percent is from the General Fund and 50.3 percent is from cash funds exempt including Highway Users Tax Fund (HUTF).

In FY 2004-05, the Department received a 4.9 percent increase in General Fund and 1.0 percent of the statewide General Fund appropriation.

The Governor is recommending a total budget of \$219.4 million, including \$58.0 million of General Fund. This represents a 2.1 percent increase in the General Fund appropriation to the Department.

New Request Summary

The Governor recommends:

- \$343,893 General Fund for ongoing operating expenses associated with implementing and maintaining the DNA robotics equipment for the Colorado Bureau of Investigation's laboratory;
- An increase of \$513,712 General Fund for caseload increases within Community Corrections to maintain the 11 percent level of offenders from the Department of Corrections;
- 2.0 FTE and \$30,868 HUTF increase for Colorado State Patrol's Dispatch Services to mitigate an increase in calls for service;
- \$332,729 cash funds exempt from the Peace Officer Standards Training Board for increased training of peace officers through the Colorado Regional Community Policing Institute within the Division of Criminal Justice; and
- 1.0 FTE and \$76,923 General Fund to address the chemistry submission backlog within the Colorado Bureau of Investigation's laboratory.

Department of Regulatory Agencies

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$64.8 million and supports 10 Long Bill groups or divisions. Of the total appropriation, 2 percent is from the General Fund and 78 percent is from cash funds.

In FY 2004-05, the Department received a 1.8 percent decrease in General Fund and less than 0.1 percent of the statewide General Fund appropriation.

The Governor is recommending a total budget of \$62.5 million, including \$1.1 million of General Fund. This represents a 7.8 percent increase in the General Fund appropriation to the Department.

New Request Summary

The Governor recommends:

- An increase of \$83,340 cash funds (Division of Registrations Cash Fund) and 1.5 FTE associated with personal services and operating costs for additional inspectors for the Electrical Board to adequately address inspection requirements, especially in the southwest quadrant of Colorado. Section 12-23-116(2), C.R.S. requires State electrical inspectors to perform inspections for all public schools and state buildings as well as for all areas within Colorado that do not have local government inspection programs. Electrical inspectors are facing an increase in workload without sufficient resources to maintain a timely and thorough inspection program. Without adequate resources, citizens and businesses in Colorado face potential electrical hazards and unexpected costs; and
- A reduction of \$108,760 cash funds (Division of Registrations Cash Fund) and 0.7 FTE associated with outsourcing functions in the Office of Barber and Cosmetologist Licensing within the Division of Registrations. In FY 2003-04, the Division moved toward outsourcing several examination functions for barber and cosmetologist license applicants. Doing so has resulted in the opportunity for the Division to reduce costs.

Department of Revenue

Operating Budget Overview

The FY 2004-05 appropriation to the Department was \$523.4 million and supports eight Long Bill groups or divisions. Of the total appropriation 17.0 percent is from the General Fund and 9.0 percent is from cash funds.

In FY 2004-05, the Department received a 1.7 percent decrease in General Fund and 3.7 percent of the statewide General Fund appropriation.

The Governor is recommending a total budget of \$525.7 million, including \$66.3 million of General Fund. This represents a 14.9 percent increase in the General Fund appropriation to the Department.

New Request Summary

The Governor recommends:

- An increase of \$828,815 cash funds exempt (Colorado State Titling and Registration Cash Fund) associated with training and system deployment requirements for the new Colorado State Titling and Registration System (CSTARS). Since the CSTARS Rewrite Project is nearing completion, the Department is making preparations to launch the new system. In order to ensure a smooth transition from the current registration and titling system to the new system, the Department needs to provide training and deployment resources to county employees in FY 2005-06. Existing FTE are unable to provide these resources since they are required to support the current CSTARS system until the new system is fully implemented;
- An increase of \$563,230 cash funds exempt (Colorado State Titling and Registration System Cash Fund) associated with replacing Colorado State Titling and Registration System (CSTARS) equipment in county offices statewide. The Governor also recommends the creation of a new line item for this appropriation, titled "County Infrastructure Replacement" under the CSTARS section of the Long Bill. The Department is required by statute to provide necessary equipment and services to support the business needs of the counties. The Department purchased current computer equipment in 1999 and 2000, meaning that the equipment will be six years old in FY 2005-06; and
- A reduction of \$6,919,424 Highway User's Tax Fund (HUTF) off-the-top and a corresponding increase of \$6,919,424 General Fund. Section 43-2-201(3)(b), C.R.S., limits the use of the "off the top" portion of the Highway User's Tax Fund to the Ports of Entry and the State Patrol beginning in FY 2005-06. The use of HUTF off-the-top in the Motor Vehicle Division does not fall under statutorily allowed uses for the HUTF off-the-top for FY 2005-06.

Department of Transportation

Operating Budget Overview

The FY 2004-05 appropriation to the Department is \$24.0 million and supports three Long Bill groups or divisions. Of the total appropriation, zero percent is from the General Fund and 96.3 percent is from cash funds exempt.

The Department has five non-appropriated line items in the Long Bill totaling \$893.4 million that are listed for informational purposes. One is for Construction, Maintenance, and Operations (\$756.1 million). The next line is for the anticipated Transportation Revenue Anticipation Notes (TRANS), for a total of \$125.0 million cash funds exempt. This \$125.0 million represents an estimate of the proceeds plus interest to be utilized in FY 2004-05. The third is for the Statewide Tolling Enterprise (\$222,432 cash funds exempt). The next line is Formula Refunds (\$7.9 million cash funds). This line consists of refunds to airports of a portion of the tax collected on commercial jet fuel at each airport. The final line is for Discretionary Grants (\$4.1 million cash funds) to public use airports for airport safety enhancements, navigational aids, airport rehabilitation or improvement projects, capacity enhancements, and airport equipment.

Funding for both the appropriated and the non-appropriated portions of the Department's budget consists of no General Fund, 7.0 percent cash funds, 60.3 percent cash funds exempt, and 32.7 percent federal funds. The major funding source of cash funds exempt is the Department's share of the Highway Users Tax Fund (HUTF). The HUTF is credited to the State Highway Fund and is projected to total \$420.3 million in FY 2004-05.

The Governor is recommending a total budget of \$24.9 million, including no General Fund.

New Request Summary

The Governor recommends:

- \$1.2 million of cash funds from the Limited Gaming Fund to pay for the impact of increased traffic related to gaming on state highways. These monies will fund rock fall mitigation on U.S. 6 through Clear Creek Canyon and on State Highway 119 from U.S. 6 into Black Hawk (\$212,625) and area highway maintenance in and around Colorado's gaming communities (\$1.0 million).