

STATE OF COLORADO

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Bill Ritter, Jr.
Governor

November 1, 2010

The Honorable Mark Ferrandino
Chairman, Joint Budget Committee
Colorado General Assembly
200 E. 14th Avenue, Third Floor
Legislative Services Building
Denver, CO 80203

Dear Representative Ferrandino:

I hereby present my balanced budget for FY 2011-12. This budget request seeks \$20.6 billion total funds, including \$7.6 billion General Fund. This budget represents the fourth fiscal year of my Administration's actions to balance the budget amid General Fund shortfalls.

Colorado continues to offer a strong economic climate and enviable quality of life. For the second year in a row, Forbes has once again ranked Colorado as the fourth best state for businesses. The Forbes ranking puts Colorado first for labor supply, sixth for overall economic climate and growth prospects, and ninth for quality of life. CNBC has rated Colorado the third best state for doing business in its *America's Top States for Business* rankings two years in a row. The American Legislative Exchange Council (ALEC) ranked Colorado 2nd in economic outlook rank in its 2010 State Economic Competitiveness Index.

While our economy is recovering, the state budget continues to have General Fund shortfalls. My FY 2011-12 balanced budget contains \$714.6 million in General Fund budget balancing actions and is net of \$379.4 million of avoided costs to the General Fund.

My Administration has balanced General Fund shortfalls of \$0.8 billion in FY 2008-09, excluding S.B. 09-279 transfers, \$2.2 billion in FY 2009-10, and \$1.2 billion (excluding cost avoidance) in FY 2010-11. I have also submitted two balancing plans since the FY 2010-11 budget was written by the General Assembly.

My August 23, 2010 Budget Balancing Plan ultimately provided \$59.7 million of balancing actions for FY 2010-11 (excluding revenue estimate changes from June 2010 to the closing of the state's books). My October 22, 2010 Budget Balancing Plan provided balancing measures to address a \$261.7 million General Fund shortfall for FY 2010-11. My October balancing plan yielded \$34.8 million more than necessary to achieve a 2.0 percent General Fund ending reserve. This \$34.8 million plus an additional \$10.1 million reduction impact (including reserve savings) from the \$9.9 million early General Fund supplementals for FY 2010-11 create a \$44.9 million

excess savings which is carried forward in the FY 2010-11 ending fund balance into FY 2011-12 beginning fund balance. This directly contributes to FY 2011-12 budget balancing.

We have done more with less and made state government more efficient than ever. The unenviable decisions for this budget of shared sacrifice and shared solutions have been tough and often unpopular. The principles of my budget balancing plans have been to preserve essential services, protect the safety net, and to minimize the pain resulting from the General Fund reductions.

From the FY 2007-08 appropriation to this FY 2011-12 request, total State General Fund increased by \$124.4 million (1.7 percent) despite significant caseload and cost increases in Medicaid, K-12, and other budgets.

State General Fund Spending	FY 07-08 Appropriation	FY 11-12 Request	FY 11-12 Change	% Change
K-12 Education	\$3,023,327,981	\$3,227,945,416	\$204,617,435	6.8%
Health & Human Services <1>	2,155,134,145	2,351,332,754	196,198,609	9.1%
Corrections, Public Safety, Judicial	997,521,508	1,078,358,595	80,837,087	8.1%
Higher Education	747,717,300	660,561,740	(87,155,560)	-11.7%
Other Department Spending	342,247,760	168,262,373	(173,985,387)	-50.8%
Subtotal Department budgets	7,265,948,694	7,486,460,878	220,512,184	3.0%
GF Expenditures/Obligations	247,800,000	151,678,092	(96,121,908)	-38.8%
Total	7,513,748,694	7,638,138,970	124,390,276	1.7%

<1>Includes: Departments of Health Care Policy and Financing, Human Services, and Public Health and Environment.

The Departments of Health Care Policy and Financing, Education, and Higher Education account for almost three-quarters of the FY 2011-12 General Fund request for State departments. Comparing the FY 2011-12 General Fund budget to the FY 2007-08 appropriation:

- Medicaid caseload in the Department of Health Care Policy and Financing increased by over 226,000 clients (59 percent),
- K-12 Education grew by over 40,000 pupils, and
- Higher Education enrollment increased by over 18,000 students.

All of these and other budget changes were accommodated within a net General Fund increase of 1.7 percent statewide over four years. Prior to this recession, the General Fund budget often grew by significantly more annually (capped by a 6.0 percent General Fund spending limit prior to S.B. 09-228).

FY 2011-12 Budget Overview

FY 2011-12 General Fund Revenues (\$7,789.7 million)

My FY 2011-12 General Fund budget assumes a starting reserve of \$180.9 million, including \$44.9 million carried forward from the FY 2010-11 budget balancing plan. To this beginning reserve balance \$7,404.0 million of General Fund revenue is added, less \$5.2 million of transfers from other funds per the September 2010 OSPB forecast. This yields a total of \$7,579.7 million General Fund available. Augmenting this General Fund revenue are initiatives to increase General Fund revenue by \$111.6 million and cash fund transfers to the General Fund of \$98.4 million. Together, this totals \$7,789.7 million General Fund available in FY 2011-12.

FY 2011-12 General Fund Expenditures (\$7,638.1 million)

My FY 2011-12 General Fund budget is built off of a FY 2011-12 base budget totaling \$7,527.6 million General Fund including \$7,476.1 million General Fund subject to the limit authorized in Section 24-75-201.1 (1) (d) (III), C.R.S. and \$51.5 million which is exempt from the General Fund limit. Reduced from this is \$1.6 million associated with the annualization of the August 23, 2010 FY 2010-11 Budget Balancing Plan in FY 2011-12, and a reduction of \$39.6 million net General Fund and General Fund Exempt in the November 1 change requests, including decision items and budget reduction items. Against this total is General Fund spending of \$49.2 million for the recommended transfer to the Capital Construction Fund and \$102.5 million for the Old Age Pension Fund.

FY 2011-12 General Fund Reserve (\$151.6 million)

My FY 2011-12 General Fund balancing plan requests a 2.03 percent General Fund reserve. The difference between my budget's General Fund revenues available (\$7,789.7 million) and General Fund spending (\$7,638.1 million) is \$151.6 million, equal to 2.03 percent of General Fund spending subject to the reserve requirement (\$7,471.9 million).

FY 2011-12 Governor's Budget

General Fund Available	\$7,789.7 million
General Fund Expenditures	\$7,638.1 million
General Fund Reserve	\$ 151.6 million
General Fund Shortfall	\$0 <1>

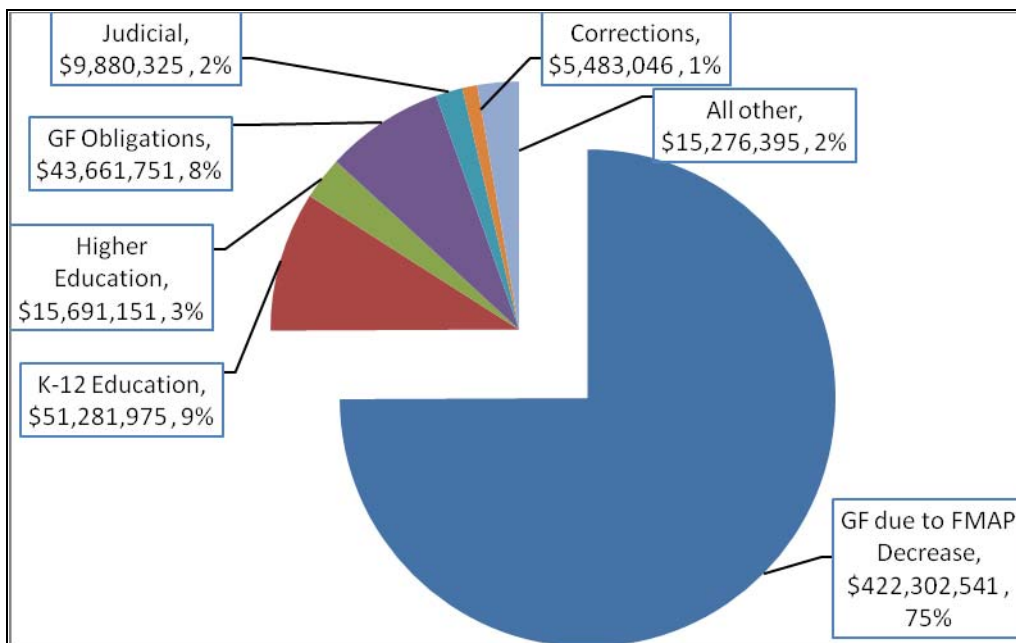
<1> Beginning balance/revenues less expenditures and 2.03 percent General Fund reserve.

My FY 2011-12 State budget is fully balanced including initiatives to reduce General Fund expenditures, augment General Fund, and to adjust the reserve requirement. These balancing initiatives are discussed beginning on page 6. The total increase of \$563.6 million General Fund over the FY 2010-11 General Fund appropriation is described in the following table.

	FY 2010-11 Appropriation	FY 2011-12 Request	FY 2011-12 Change	% Change
Total Funds	\$ 19,645,648,268	\$ 20,591,256,832	\$ 945,608,564	4.8%
General Fund	7,074,561,786	7,638,138,970	563,577,184	8.0%
Cash Funds	5,791,412,728	6,346,171,052	554,758,324	9.6%
Reappropriated	1,510,192,308	1,505,802,069	(4,390,239)	-0.3%
Federal Funds	5,269,481,446	5,101,144,741	(168,336,705)	-3.2%
FTE	52,908.1	53,023.0	114.9	0.2%

My FY 2011-12 budget contains net increases of 8.0 percent General Fund compared to the FY 2010-11 appropriation. The distribution of these net increases is reflected in the chart below:

FY 2011-12 General Fund Increases over FY 2010-11 General Fund Appropriation



NOTE: Percents represent percents of the total General Fund increase in the FY 2011-12 budget compared to the FY 2010-11 General Fund appropriation, or \$563.6 million.

This 8.0 percent General Fund increase in FY 2011-12 compared to the FY 2010-11 appropriation is attributable to the following:

- **74.9 percent or \$422.3 million** is attributable to replenishing General Fund reductions in the Department of Health Care Policy and Financing due to the discontinuation of

enhanced federal medical assistance percentages (FMAP) funding from the American Recovery and Reinvestment Act of 2009 (ARRA) in FY 2011-12. As a part of the federal stimulus package, the State received higher federal matches in FY 2009-10 and FY 2010-11 which allowed the State to reduce the state match, saving \$422.3 million General Fund in the FY 2010-11 appropriation. As this enhanced FMAP funding level is not continued in FY 2011-12, additional General Fund is necessary to maintain the program at current levels.

- **9.1 percent or \$51.3 million** is attributable to net increases in the Department of Education in FY 2011-12. This \$51.3 million General Fund increase is inclusive of the FY 2011-12 General Fund reductions for K-12 school finance identified on page 7. Even with this increase, we will be \$92.0 million short of fully funding the expected inflation and enrollment increases.
- **7.7 percent or \$43.6 million** is attributable to increases in General Fund (Exempt) obligations and expenditures in FY 2011-12. Of this sum, \$40.1 million is attributable to increases in the requested General Fund transfer to Capital Construction, \$2.6 million is attributable to increases in the forecast estimated for Old Age Pension Fund expenditures, and the remainder is attributable to other changes in the General Fund obligations and exemptions forecasted in the OSPB September 2010 revenue forecasted, including the discontinuation of \$0.5 million associated with S.B. 09-264.
- **2.8 percent or \$15.7 million** is attributable to the increase in the Department of Higher Education in FY 2011-12, mostly due to the discontinuation of the \$15.4 million one-time savings in H.B. 10-1383 ("College Invest Transfer"). As the H.B. 10-1383 refinancing of General Fund with cash funds was one-time in nature in FY 2010-11, additional General Fund of \$15.4 million is necessary just to maintain higher education funding at current state support levels.
- **1.8 percent or \$9.9 million** for the Judicial Department. This increase reflects annualization of prior year budget actions made by the General Assembly, partially offset by statewide reductions affecting all departments.
- **1.0 percent or \$5.5 million** for the Department of Corrections. This increase reflects a \$9.1 million caseload increase offset by other reductions.
- **2.7 percent or \$15.3 million** is attributable to other areas of the budget. This includes 1.1 percent (\$6.2 million) attributable to net increases in the Department of Human Services (mostly associated with increases for persons with Developmental Disabilities) and with 1.6 percent and \$9.0 million in all other areas of the budget.

Total FTE are increasing by 114.9 FTE over the FY 2010-11 appropriation. Of this increase, 15.2 FTE are attributable to FY 2011-12 new needs identified in change requests and the remainder (87 percent) are attributable to the annualization of prior year decisions by the General Assembly, both special legislation and the Long Bill.

The two largest department FTE increases in FY 2011-12 are the Department of Corrections and the Judicial Department. The Department of Corrections' FY 2011-12 request includes an increase of 25.0 FTE over the FY 2010-11 appropriation. A net change of 22.0 FTE is included in DOC's base, due to a full year of staff costs associated with the opening of 316 beds at the Colorado State Penitentiary II (CSP II) on September 1, 2010 and the opening of a mental health unit at the Colorado State Penitentiary (CSP), as well as a slight decrease in FTE due to a negative annualization of the parole and community caseload decision item. Additionally, the DOC is requesting 3.0 FTE associated with a projected parole and community caseload for FY 2011-12. For the Judicial Department, OSPB has assumed an increase of 47.9 FTE in FY 2011-12 over the appropriation due to the annualization of positions added in FY 2010-11 associated with the delayed implementation of H.B. 07-1054. This assumption is reflected in OSPB's projected base request for Judicial.

The table below shows the FY 2011-12 General Fund request compared to the FY 2010-11 appropriation:

<u>Comparison of Total General Fund: FY 2011-12 Request to FY 2010-11 Appropriation</u>				
	FY 10-11 Appropriation	FY 11-12 Request	FY 11-12 GF Change	% GF Change
K-12 Education	\$3,176,663,441	\$3,227,945,416	\$51,281,975	1.6%
Health and Human Services <1>	1,899,541,326	2,351,332,754	451,791,428	23.8%
Corrections, Public Safety, Judicial	1,062,258,679	1,078,358,595	16,099,916	1.5%
Higher Education	644,870,589	660,561,740	15,691,151	2.4%
Other Department Spending	183,211,410	168,262,373	(14,949,037)	-8.2%
Subtotal Department budgets	6,966,545,445	7,486,460,878	519,915,433	7.5%
Other General Fund Expenditures	108,016,341	151,678,092	43,661,751	40.4%
Total	7,074,561,786	7,638,138,970	563,577,184	8.0%

<1> Includes: Departments of Health Care Policy and Financing, Human Services, and Public Health and Environment.

Early Submission of FY 2010-11 Supplementals Associated with FY 2011-12 Change Requests

The November 1 budget submission for FY 2011-12 contains "early" FY 2010-11 supplementals which would typically be provided in January 2011. These supplementals are provided early so that the assumptions for calculating the current year and building the FY 2011-12 budget are fully available to the Joint Budget Committee for analysis.

These requests in the Departments of Corrections, Governor, Health Care Policy and Financing, Human Services, Personnel and Administration, and Revenue total \$225.5 million total funds and contain net General Fund reductions of \$9.9 million. Of the total funds requested, \$207.7 million represents requests in the Department of Health Care Policy and Financing.

The \$10.1 million General Fund savings made available in these early supplementals (including reserve impact), plus \$34.8 million General Fund savings achieved in the October 22, 2010 Balancing Plan provide \$44.9 million beyond the 2.0 percent reserve to carry forward toward the General Fund shortfalls in FY 2011-12.

FY 2011-12 General Fund Balancing Actions

My budget balancing plan for FY 2011-12 contains \$379.4 million in cost avoidance and \$714.6 million in General Fund budget balancing initiatives.

FY 2011-12 Costs Not Funded (“Cost Avoidance”)

My FY 2011-12 budget contains approximately \$379.4 million General Fund of cost avoidance. This represents costs which are typically funded in the budget and which are not funded due to the General Fund shortfall.

Area of Cost Avoidance	FY 2011-12
K-12 Public School Finance	\$365,411,313
Salary Survey	<u>13,999,879</u>
Total FY 11-12 "Cost Avoidance"	\$379,411,192

FY 2011-12 Budget Balancing Actions (\$714.6 Million)

To ensure that Colorado’s budget remains balanced, my FY 2011-12 Budget Balancing Plan provides approximately \$714.6 million of budget balancing initiatives. Components of the \$714.6 million of FY 2011-12 budget balancing include the following:

- **\$44.9 million** carried forward into FY 2011-12 from our FY 2010-11 budget actions. This included \$34.8 million associated with the October 22, 2010 budget balancing plan and \$10.1 million (including the reserve impact on the \$9.9 million reduced General Fund expenditures) saved associated with FY 2010-11 early supplementals also provided in the November 1 budget package. These supplemental initiatives provide General Fund of \$44.9 million relief beyond the 2.0 percent balancing plan requirement outlined in Section 24-75-201.5, C.R.S. This excess General Fund beyond the 2.0 percent reserve is carried forward and used as beginning fund balance in my plan to balance FY 2011-12.
- **\$302.1 million** in General Fund expenditure reductions. This includes \$255.6 million General Fund savings which is subject to the General Fund limit in Section 24-75-201.1, C.R.S. and \$46.5 million General Fund savings which is not subject to the limit.
- **\$210.0 million** associated with General Fund revenue increases, including \$111.6 million in revenue augmentation measures and \$98.4 million in cash fund transfers into the General Fund.

- **\$157.5 million** General Fund associated with lowering the General Fund reserve requirement from 4.0 percent of General Fund expenditures subject to the limit to 2.03 percent of General Fund expenditures. This saves \$147.3 million General Fund. Secondly, \$10.2 million General Fund is saved through calibration of the FY 2011-12 reserve level due to the reduction of FY 2011-12 General Fund expenditures subject to the reserve.

General Fund Expenditure Reductions in FY 2011-12 (\$302.1 Million)

My FY 2011-12 November 1 budget contains \$302.1 million General Fund expenditure reductions. These General Fund reductions include a net \$255.6 million which is subject to the General Fund limit and \$46.5 million which is not subject to the General Fund limit.

General Fund Subject to the Limit: Reductions

The net \$255.6 million includes, but is not limited to, the following:

- \$31.0 million associated with statewide adjustments across all affected departments. This includes \$19.6 million for a one-year continuation of S.B. 10-146 Concerning a Modification of Contribution Rates to PERA, decreasing the State's contribution by 2.5 percent and increasing the employee contribution by 2.5 percent. This \$31.0 million also includes \$10.0 million for a 2.0 percent personal services reduction and \$1.4 million associated with pro-rating benefits for employees who work less than 50 percent time.
- \$123.8 million reduced in K-12 Education. While the K-12 General Fund budget is increasing in FY 2011-12 (\$93.8 million total funds increase, including \$51.3 million General Fund), it is not enough of an increase because of the reductions taken because of the State's General Fund budget shortfall. The FY 2011-12 request for the Department of Education K-12 Public School Finance reflects reductions in the request totaling \$123.8 million, including \$31.6 million attributable to refinancing General Fund with State Public School Fund moneys (through a diversion from the Permanent Fund) and \$92.2 million is a General Fund reduction.
- \$50.0 million saved in the Department of Health Care Policy and Financing as H.B. 09-1293 funds are used to cover a portion of the increase in Medicaid caseload and utilization.
- \$36.7 million reduced in the Department of Health Care Policy and Financing associated with four budget reductions. These budget reductions include the following: Medicaid program reductions (\$14.8 million); reductions in indigent care program financing (\$14.0 million); delaying managed care payments (\$4.3 million); and further changes to Medicaid fee-for-services payment timing (\$3.6 million).
- \$21.0 million General Fund refinanced for health related activities within the Department of Health Care Policy and Financing. The General Fund savings is attained by refinancing with Amendment 35 Tobacco Tax Cash Funds. The affected Amendment 35

grant programs in the Department of Public Health and Environment will still receive \$17.6 million after this reduction.

- \$9.2 million net reduction in the Department of Human Services associated with the Division of Youth Corrections. This eliminates flexible funding in the Purchase of Contract Placements appropriation that resulted from lower projected caseloads.
- \$2.7 million reduced in the Department of Human Services associated with county tax base relief. This funding helps counties with the lowest property tax values pay for high social service costs.
- \$2.7 million reduced in the Department of Natural Resources, State Parks. This proposal eliminates all of the General Fund for State Parks and replaces it with other sources of non-General Fund revenue, including raised fees and Severance Tax reduced from the Division of Wildlife.
- \$1.6 million reduced in the Department of Corrections. This sum represents the FY 2011-12 annualized savings from my August 23, 2010 Budget Balancing Plan for FY 2010-11.
- \$0.5 million reduced in the Department of Agriculture. This represents the savings associated with extending the refinancing of the Agricultural Services Division with cash funds.

My FY 2011-12 budget also includes a \$0.1 million increase in the Department of Revenue associated with its Decision Item #2 sales tax delinquency billings, a budget balancing initiative. As noted above, this decision item brings in additional revenue of \$2.2 million General Fund.

Note that no specific General Fund reduction is requested in the Department of Higher Education. However, Higher Education is affected in FY 2011-12 by the loss of \$89.0 million federal ARRA funds which are not made up with General Fund.

Partially offsetting the General Fund reductions listed above are specified increases authorized in my budget request for areas that require funding above and beyond FY 2011-12 statutorily based programs' caseload. These General Fund increases include, but are not limited to the following:

- \$13.8 million to ensure the solvency of the Children's Health Plan Trust.
- \$6.8 million for critical Developmental Disabilities placements and reallocation of services.
- \$2.4 million for administrative costs related to Food Stamp caseload increases in the Department of Human Services.
- \$0.2 million for Electronic Benefits Transfer Services and \$0.1 million for Colorado Benefits Management Services (CBMS) changes in the Department of Health Care Policy and Financing.

In order to afford these General Fund expenditures and revenue impacts, greater General Fund budget balancing efforts were made. These measures, however, are netted out against the increases so as to provide the most conservative estimate of the budget balancing efforts.

Also note that the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA) funds were used to offset what would otherwise have been a General Fund need to address the solvency of the HCEF. Under CHIPRA, federal funding was made available to states for performance bonuses to support the additional number of enrollees in Medicaid and the Children's Basic Health Plan that states attract due to outreach and retention activities. For FY 2011-12, Colorado's bonus payment is \$26.7 million and this sum is wholly applied toward ensuring the solvency of the Health Care Expansion Fund.

General Fund Exempt from the Limit: Reductions

In addition to the \$255.6 million of General Fund net reductions which are subject to the limit, \$46.5 million General Fund is reduced which is not subject to the General Fund spending limit. This sum includes the following:

- \$25.3 million associated with continuation of the existing suspension on State's contributions to the Fire and Police Pension Association's, State Assisted "Old Hire" Pension Plans through FY 2012-13. If approved, the State would lower its General Fund obligations by \$25.3 million in each of the next two years.
- \$11.7 million associated with eliminating the cigarette tax rebate to local jurisdictions funded in the Department of Revenue.
- \$9.5 million in savings in the Capital Construction Transfer, refining the \$10.0 million savings built into the September 2010 forecast through the Capital Construction Prioritization delivered to the Capital Development Committee on November 1. This sum reflects a decrease in the amount of controlled maintenance funded.

General Fund Revenue Increases (\$210.0 Million)

My FY 2011-12 November 1 budget contains \$210.0 million in General Fund revenue enhancements. Of this sum, \$98.4 million represents cash fund transfers and \$111.6 million represents other General Fund revenue enhancing measures.

The FY 2011-12 budget balancing requests \$98.4 million of cash fund transfers to the General Fund. These transfers include the following:

- \$27.0 million from the Local Government Severance Tax Fund.
- \$20.0 million from the High Cost Administration Fund.
- \$15.0 million from the Perpetual Base Account of the Severance Tax Trust Fund and \$15.0 million from the Local Government Mineral Impact Fund.

- \$10.0 million from the Medical Marijuana Program Cash Fund.
- \$9.8 million from the Licensing Services Cash Fund in the Department of Revenue.
- \$1.0 million from the Debt Collection Fund (\$0.2 million) and the Administrative Hearings Fund (\$0.8 million) combined.
- \$0.5 million from the Auto Dealers License Fund and approximately \$0.2 million from the Liquor Enforcement Division and State Licensing Authority Cash Fund.

The FY 2011-12 budget contains other revenue increases totaling \$111.6 million net General Fund. These net General Fund revenue changes include the following:

- \$71.6 million increase associated with extending the sales tax vendor administrative allowance. Due to the fiscal shortfall anticipated in FY 2011-12 and beyond, this proposal requests that the current temporary suspension of the vendor administrative fee allowance be extended for three additional years, through FY 2013-14. The projected net General Fund increase to the State from this proposal is \$71.6 million in FY 2011-12, \$74.1 million in FY 2012-13, and \$74.9 million in FY 2013-14.
- \$31.0 million increase associated with extending the cigarette sales tax exemption. This proposal requests that the current temporary suspension of the cigarette sales tax exemption be extended through FY 2013-14. The anticipated net General Fund benefit to the State is projected to equal \$31.0 million, \$30.3 million, and \$29.5 million in FY 2011-12, FY 2012-13, and FY 2013-14, respectively.
- \$21.8 million increase associated with changes to Limited Gaming transfers. Under current law, a portion of revenue collected through limited gaming is to be transferred to the Colorado Travel and Tourism, New Jobs Incentives, State Council on the Arts, Film Incentives, and Clean Energy cash funds at the end of FY 2011-12. For budget balancing purposes, this proposal requests a legislative change for FY 2011-12 gaming revenue distributions to ensure only partial transfers of statutorily defined allocations of gaming moneys to the Travel and Tourism, New Jobs Incentives, State Council for the Arts and Film Incentives and no transfer for the Clean Energy Fund.
- \$2.2 million increase associated with sales tax delinquency billings administered by the Department of Revenue. This initiative is estimated to result in an additional \$2.2 million and \$2.7 million in General Fund revenue in FY 2011-12 and FY 2012-13, respectively. Additionally, local jurisdictions will see their revenues increase because the Department collects local sales taxes for the majority of cities, counties, and special districts in the state. Associated with this revenue increase is an expenditure increase of \$0.1 million General Fund for the Department of Revenue in FY 2011-12 and subsequent years to expand the number of billings sent to delinquent sales tax accounts.

Offsetting the General Fund revenue increases listed above is a \$15.0 million reduction associated with a requested transfer from the General Fund to the Health Care Expansion Fund to address that Fund's insolvency issues.

FY 2011-12 General Fund Reserve (\$157.5 Million)

My FY 2011-12 Balanced Budget provides for a reduction in the FY 2011-12 General Fund reserve requirement. Current statute provides for a 4.0 percent General Fund reserve per Section 24-75-201.1 (1) (d) (III), C.R.S. My balancing proposal provides for a reduction in the General Fund reserve, from 4.0 percent to 2.0 percent. This reduction frees up \$147.3 million General Fund for other purposes in FY 2011-12. In addition, my FY 2011-12 budget balancing plan saves \$255.6 million in FY 2011-12 of General Fund which is subject to the General Fund limit and reserve requirement; this sum is eliminated and therefore the reserve expenditure is also not required, saving \$10.2 million. Together, the \$147.3 million of General Fund reserve reduction plus the \$10.2 million of reserve savings equals the \$157.5 million of total reserve decreases.

Closing Remarks

We've balanced the State General Fund budget while largely maintaining state services. We have used a host of measures, including reducing the amount spent on state personnel, program reductions, strengthening tax code compliance, reducing tax credits and exemptions, and transferring cash funds with excess balances into the General Fund. Full balancing plans were presented in response to General Fund shortfalls.

My balancing actions since FY 2008-09 have attempted to minimize the pain felt in programs while spreading the sacrifice across state government. Now after four years of budget balancing initiatives, efficiencies, and reductions, very few options for General Fund budget balancing remain without taking deep cuts to core state services.

Using resources from Pinnacle was discussed during the 2010 session. While use of such funds would reduce the degree of the General Fund reductions proposed, my FY 2011-12 balanced budget does not use any funding from Pinnacle. Using \$250 million of Pinnacle funds could have translated into avoiding all of the \$123.8 million reductions to K-12 Education plus backfilling Higher Education's loss of \$89.0 million of discontinued federal ARRA funds, leaving money left over to offset other reductions. Using \$250 million of Pinnacle funds could also have eliminated all of the \$98.4 million of cash fund transfers (which includes \$57.0 million of Severance Tax related cash fund transfers) and \$126.6 million of the General Fund revenue increases. It could also have made a 4.0 percent reserve possible.

If you have any questions about this request or about the budget in general, please do not hesitate to contact my Budget Director, Todd Saliman.

Sincerely,



Bill Ritter, Jr.
Governor

Cc: Senator Moe Keller, Joint Budget Committee Vice-chairman
Senator Mary Hodge, Joint Budget Committee Member
Senator Al White, Joint Budget Committee Member
Representative Dickey Lee Hullinghorst, Joint Budget Committee Member
Representative Cheri Gerou, Joint Budget Committee Member
Speaker of the House Terrance Carroll
Senate President Brandon Shaffer
Mr. John Ziegler, Joint Budget Committee Staff Director
Mr. Todd Saliman, Director, Governor's Office of State Planning and Budgeting
Mr. Jim Carpenter, Chief of Staff, Governor Bill Ritter, Jr.
Mr. Don Elliman, Chief Operating Officer, Governor Bill Ritter, Jr.