



Governor Bill Ritter's FY 2011-12 Budget Request

November 2, 2010



Balancing the Budget

- The Governor's FY 2011-12 budget totals \$20.6 billion, including:
 - \$7.6 billion General Fund
 - \$6.3 billion Cash Funds
 - \$5.1 billion Federal Funds
 - \$1.5 billion Reappropriated Funds
- With this FY 2011-12 balanced budget submission, shortfalls totaling over \$5.2 billion have been addressed over four fiscal years.
 - A shortfall of \$0.8 billion was addressed in FY 2008-09.
 - A shortfall of \$2.2 billion was addressed for FY 2009-10.
 - A shortfall of \$1.5 billion was addressed for FY 2010-11.
 - This includes the \$59.7 million balancing announced on August 23, 2010.
 - This includes the \$261.7 million balancing plan announced on October 22, 2010.
 - A shortfall of \$714.6 million is now being addressed through this plan.
 - The \$714.6 million shortfall does not include major avoided costs totaling \$379.4 million which were not funded in this FY 2011-12 balanced budget request.



FY 2011-12 Budget Highlights

The FY 2011-12 budget request balances a shortfall of \$714.6 million and includes:

- Not funding \$379.4 million of increases that had historically would have been included in the budget.
- A \$43.0 million net increase for K-12 Total Program. This is \$92 million short of covering enrollment and inflation increases for Total Program in FY 2011-12.
- Maintaining state support for colleges and universities.
- Balancing actions to cover the expiration of \$422.3 million in Federal Recovery Act funds.
- Maintaining General Fund statutory reserve at 2%.
- Medicaid enrollment increases of 11% (58,455 individuals).
- No increases for performance pay or salary survey.
- An effective reduction of employee pay of 2.5%.
- A 2% reduction General Fund to personal services.
- Medicaid and Children's Basic Health Plan program reductions.
- Eliminating General Fund support for state parks.
- Continuing suspension of sales tax exemption for cigarettes.
- Additional emergency placements for people with developmental disabilities.



Shifting and Stretching Dollars

- Since 2001, the state's budget has become increasingly strained.
- Implementation of repeated efficiency studies and audits has eliminated the major sources of waste, fraud and abuse.
- Transparency and accountability have greatly improved
- As of October 2010, there are 25,912 state employees under the Governor's purview. That is 3261 fewer than October 2008, when the economic downturn began.
- Nondiscretionary programs are receiving an increasing portion of the budget.
- Today, 97% of the General Fund budget goes to just five service areas.
- In most areas, funding for services is not keeping up with even the minimal growth rate upon which TABOR was built.
- Amendment 23 worked. K-12 funding began to catch up but now ground is being lost.
- For years, state funding for higher education has not provided increases to institutions for new students.



Efficiency and Audits

- When Governor Bill Owens was elected in 1998, he implemented the New Century Colorado Project to identify opportunities to improve Government efficiency and eliminate waste, fraud and abuse.
- When Governor Bill Ritter was elected in 2006, he created the *Government Efficiency and Management (GEM)* review to identify opportunities to improve government efficiency and eliminate waste, fraud and abuse. The estimated benefit to the state of this effort was \$205 million.
- Since 2000, the independent Office of the State Auditor has conducted 642 audits that have resulted in thousands of recommendations to achieve efficiencies, reduce waste and improve services. Historically, nearly all of the Auditor's recommendations are implemented by departments.
- Every year, the State Departments, the Governor's Office of State Planning and Budgeting and the Joint Budget Committee identify new ways to save money and operate more efficiently. These ideas are submitted to the Legislature and are almost always approved through the Long Bill.



Transparency and Accountability

■ ***Online Budgets***

- The OSPB website is now a repository of every department's budget request.

■ ***Transparent Planning and Progress***

- The Governor implemented a more targeted strategic planning process for state departments. The plans are posted on the OSPB website. These plans now include measurable, outcome based performance objectives for the critical components of each department's mission. Pursuant to HB 10-1119, these plans will also be analyzed annually by the Legislature.

■ ***Quality Analysis and Reporting***

- Websites for OSPB, the JBC and Legislative Council provide countless reports and summaries of the state's budget and revenues.

■ ***State Taxpayer Accountability Report (STAR)***

- Treasurer Cary Kennedy takes the lead in preparing this annual report which summarizes the state's finances. This easy-to-read summary is available online.

■ ***Colorado Tax Tracks***

- This new interactive website from Treasurer Cary Kennedy provides detailed information on an individual or family basis about how state tax dollars are used.

■ ***Transparency Online Project (TOP)***

- This effort puts all of Colorado's revenues and expenditures online. This in-depth online resource puts nearly every state government expenditure just a mouse click away.



Tough Choices

- 97% of the FY 2011-12 General Fund appropriation is devoted to just five areas of service:
 - **43.1%, K-12 Education** is the largest component of the General Fund budget and was off limits when balancing in FY 2009-10 due to a required 5% General Fund increase.
 - **22.4%, Health Care Policy and Financing** provides services that are mostly entitlement programs that have a counter-cyclical relationship with the economy. When the economy goes down, Medicaid enrollments go up.
 - **8.6%, Human Services** are provided to the state's most vulnerable and highest-risk populations such as those with developmental disabilities or mental illness, juvenile delinquents, and children who are the victims of abuse and neglect.
 - **14.4%, Corrections, Public Safety and Judicial** provide public safety services. Staffing levels that were reduced during the last recession have still not been restored. Judicial staffing was increased pursuant to HB 07-1054.
 - **8.8%, Higher Education** is one of the last remaining areas of the budget where there continues to be budgetary flexibility and where level funding had been temporarily maintained with federal stimulus funds.



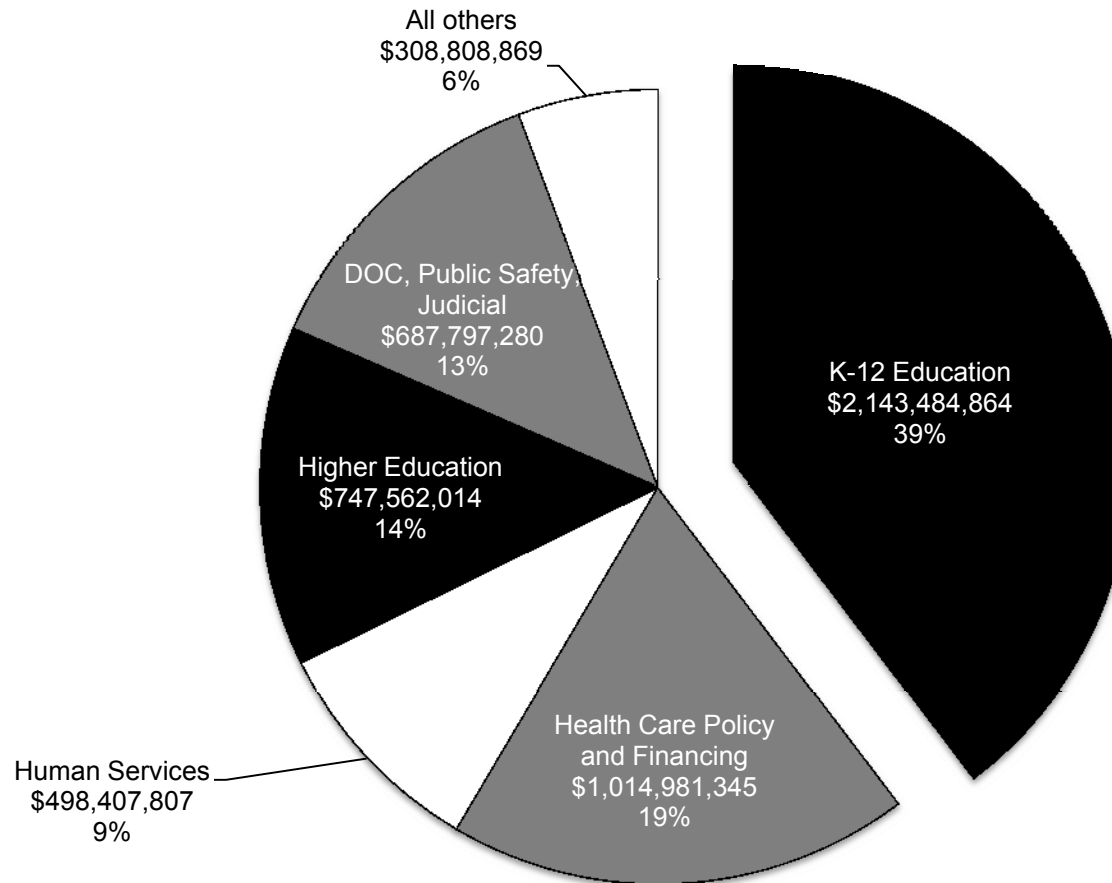
ARRA Funds for Budget Balancing

Fiscal Year	FMAP	SFSF Education Stabilization Fund	SFSF Government Services Fund	Total
2008-09	\$247,743,698	\$150,676,055	\$31,760,411	\$430,180,164
2009-10	\$418,933,984	\$382,008,243	\$96,757,419	\$897,699,646
2010-11	\$363,825,231	\$89,194,099	\$9,846,312	\$462,865,642
Total	\$1,030,502,913	\$621,878,397	\$138,364,142	\$1,790,745,452

OSPB estimates from the summer of 2010 and are not based on the November 1, 2010 budget request.

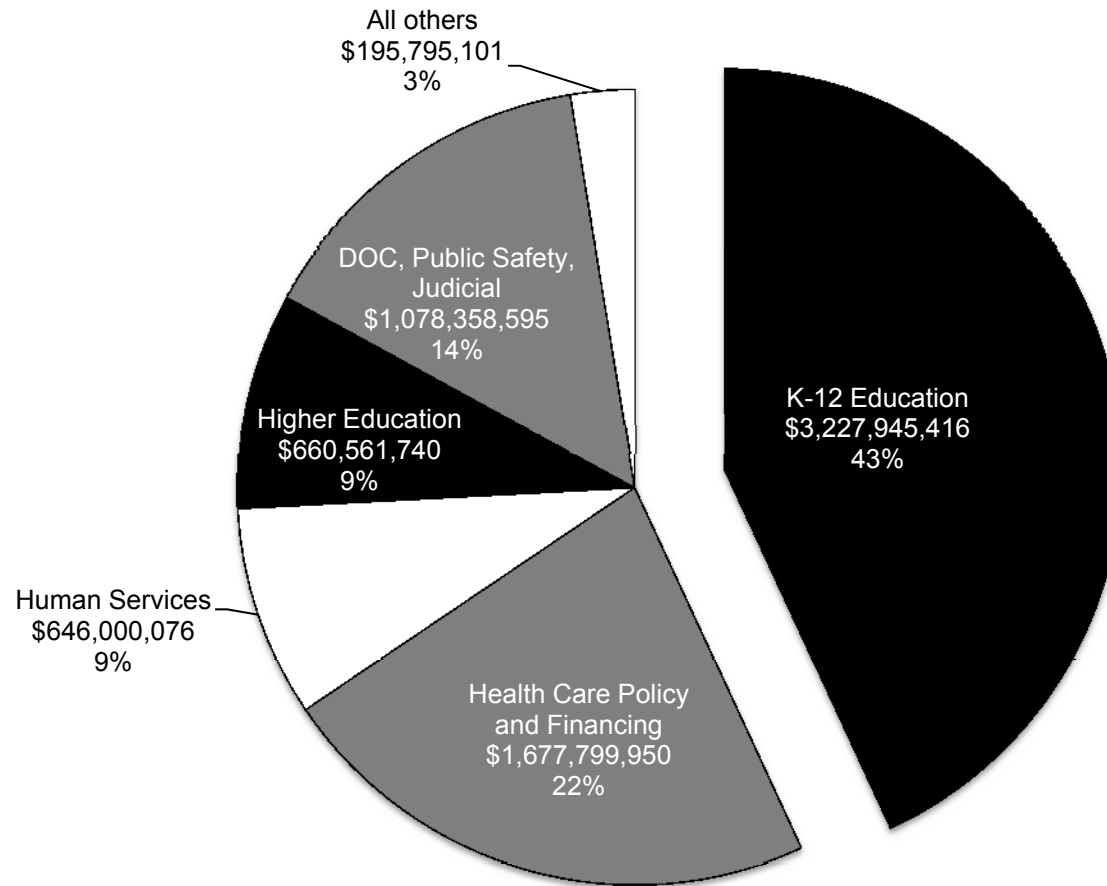


Allocation of FY 2000-01 Department General Fund appropriations



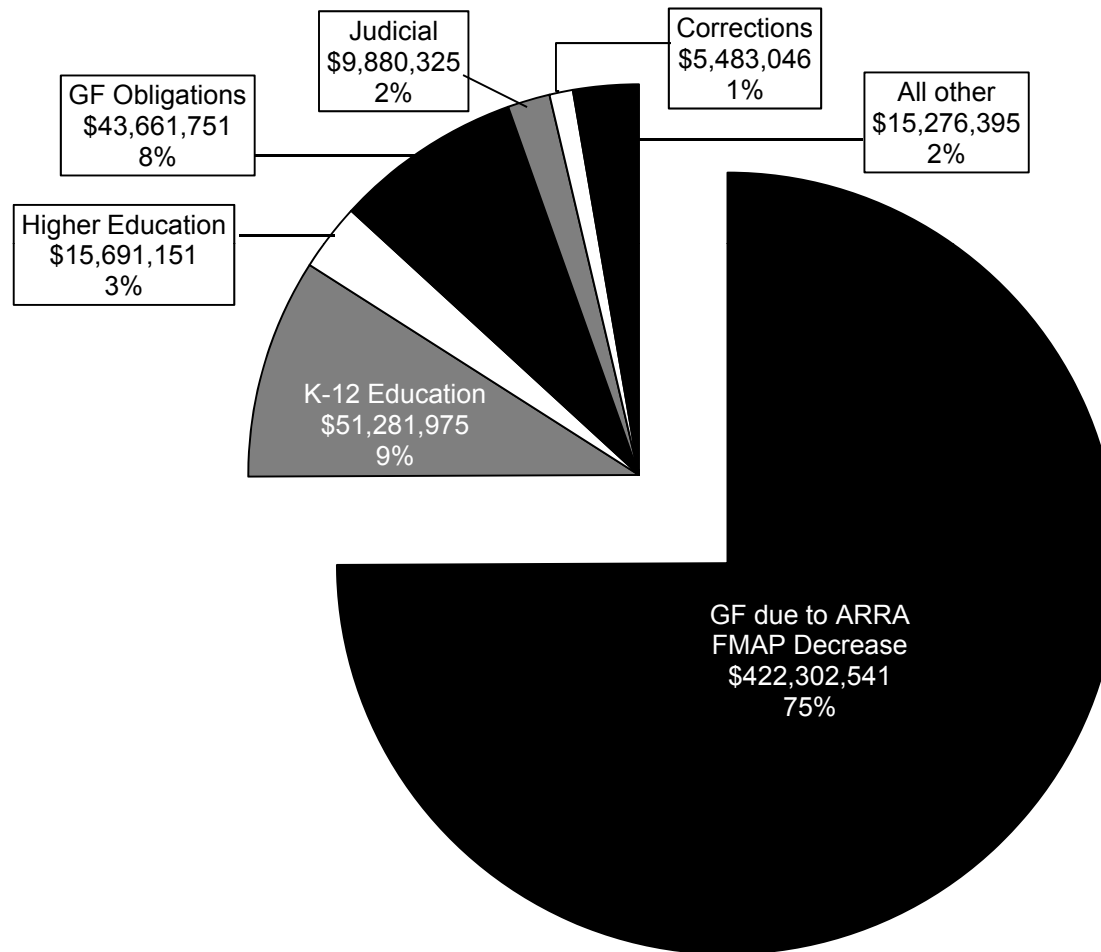


Allocation of FY 2011-12 Department General Fund Appropriations





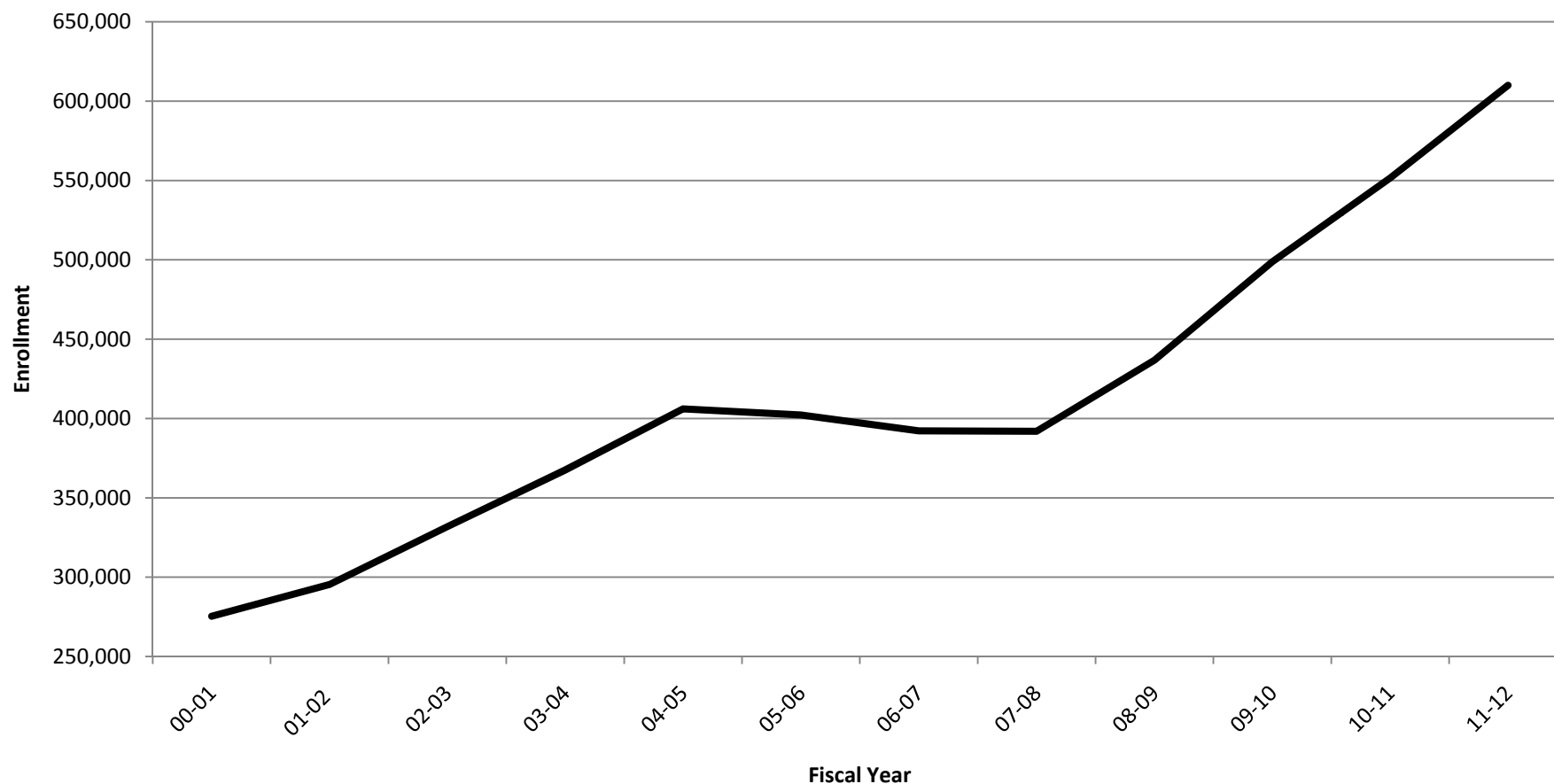
Allocation of FY 2011-12 General Fund Increase





Medicaid Enrollment Growing

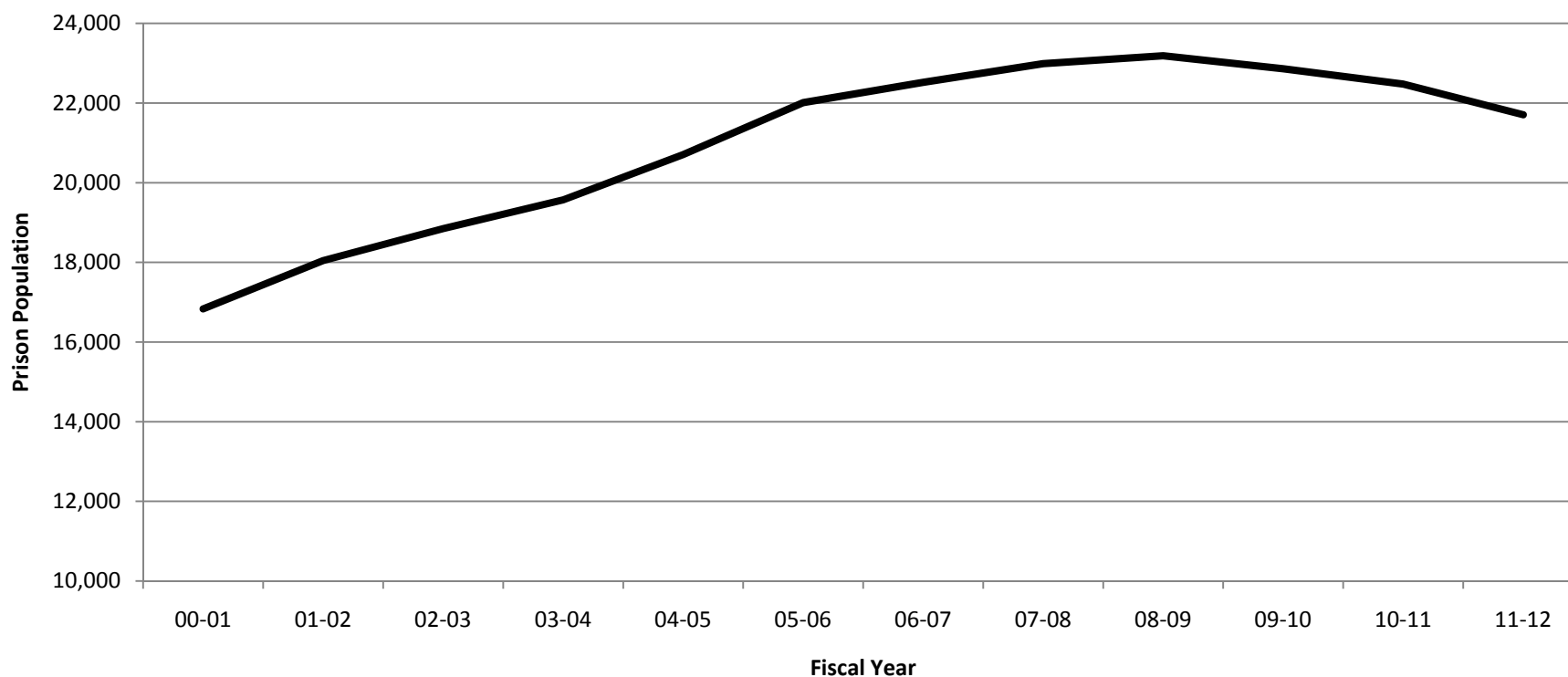
Increase of 121% Since FY 2000-01





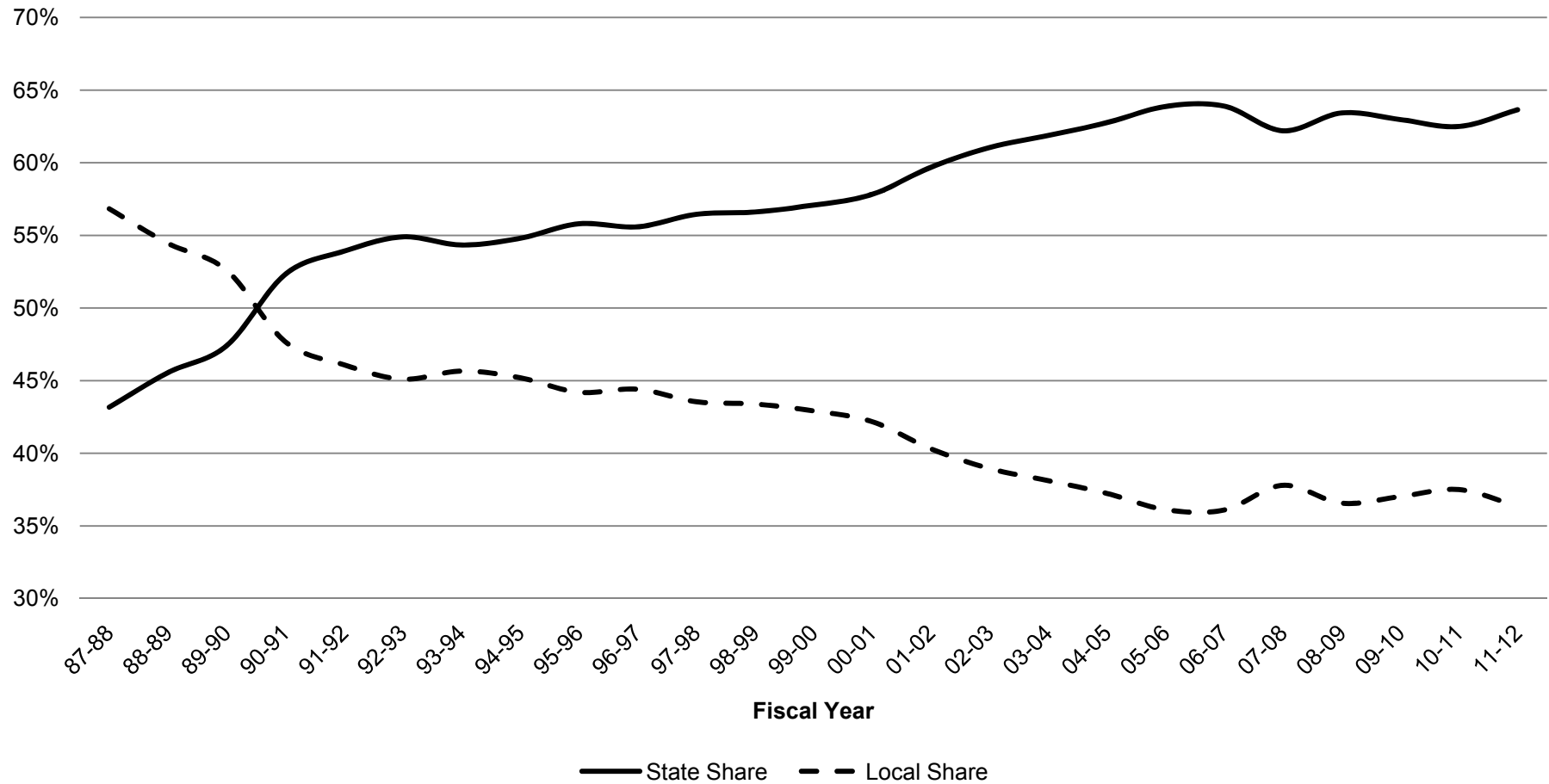
Corrections Population Changes

In 2007, it was estimated that the prison population would increase by more than 5,000 offenders over five years. Instead, prison growth slowed significantly between FY 2006-07 and FY 2008-09, and the prison population decreased in FY 2009-10. The prison population is expected to continue declining over the next couple of years.





State's K-12 Share Increasing





Major Costs Not Funded

Major Area	Amount
K-12 Public School Finance	\$365,411,313
Salary Survey	\$13,999,879
Total FY 11-12 Cost Avoidance	\$379,411,192



Significant FY 2011-12 Budget Actions

Department of Corrections

- **General Budget Reductions:** Reduction of \$1.6 million General Fund associated with multiple FY 2010-11 balancing actions that carry into FY 2011-12. Balancing actions include leased space decreases, modifications to maximize bed space in state facilities, contract agreements with utility companies to lower utility costs, decreases in demand for clothing for releasing offenders, and reduced funding for parole and community contract services based on prioritization of such services.

K-12 Education

- **Categorical Programs:** Increase by \$2.3 million State Education Fund pursuant to constitutional requirements. This increases the state's funding to school districts for children with disabilities, English language proficiency, public school transportation, gifted and talented students, at-risk students, etc.



Significant FY 2011-12 Budget Actions

K-12 Education

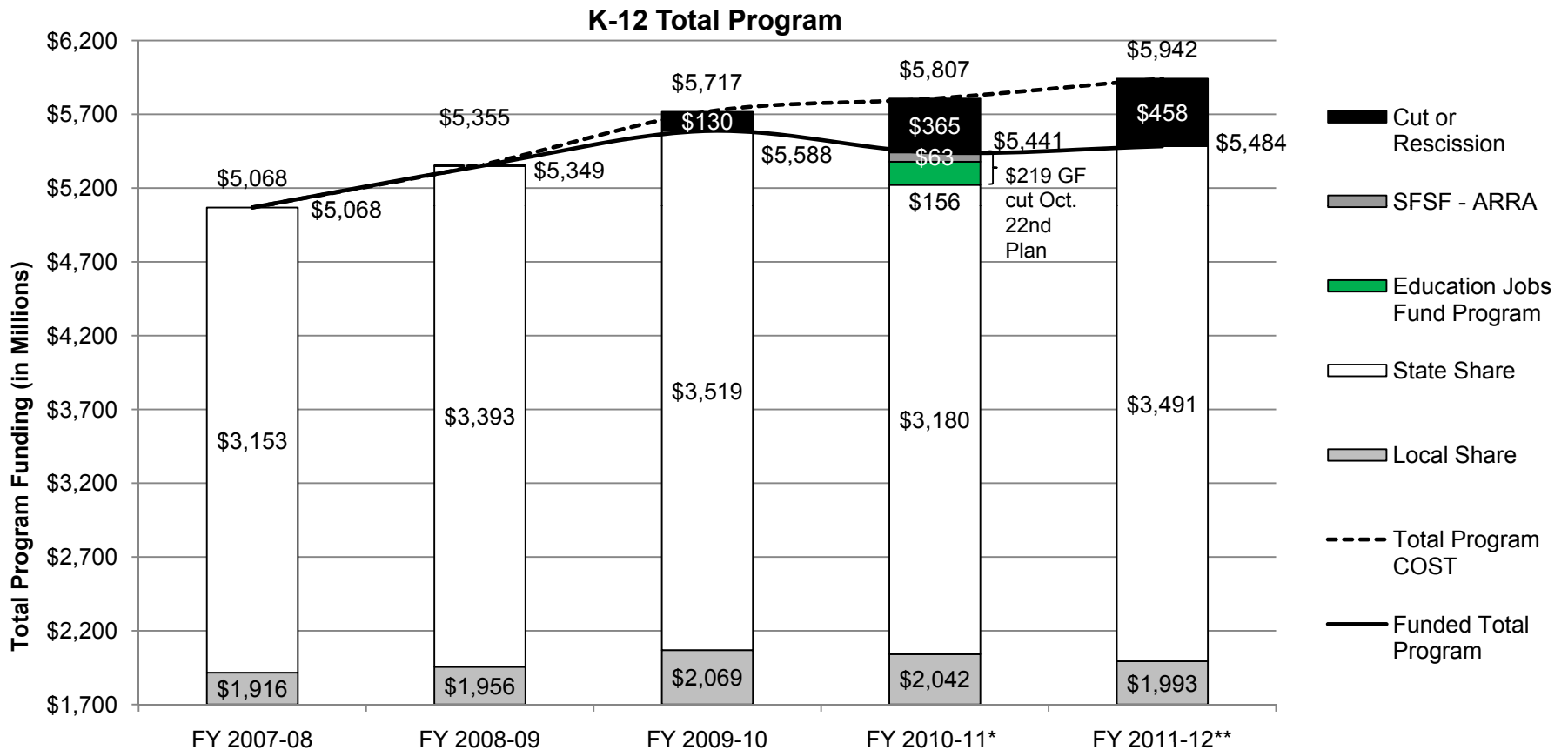
- **K-12 Total Program:** Net increase of \$43.0 million total funds including:
 - State Share: \$91.2 million increase
 - \$51.1 million General Fund increase
 - \$41.7 million State Education Fund increase
 - \$1.6 million State Public School Fund decrease
 - Local Share: \$48.2 million decrease
 - \$52.7 million Local Property Tax decrease
 - \$4.5 million Specific Ownership Tax increase

The \$43.0 million total program increase covers only a portion of the \$135.0 million total cost of inflation and enrollment increases. The request implements this change through adjustments to the State Budget Stabilization Factor included in the Public School Finance Act. With this request, average per pupil funding will decrease by \$39.57.

The request includes a one year extension of the temporary diversion of all interest and income earned on the investment of moneys in the public school fund (permanent fund) to the State Public School Fund in FY 2011-12.



Significant FY 2011-12 Budget Actions





Significant FY 2011-12 Budget Actions

Governor's Office

- **Global Business Development Spending Authority:** Increase of \$513,135 total funds (\$150,000 cash funds and \$363,135 federal funds) to provide spending authority for contributions, grants, and donations received for large international trade missions and for gifts and donations under its federal grant program to market Colorado goods and services in China and Mexico.

Health Care Policy and Financing

- **Request for Medical Services Premiums:** Increase of \$391.2 million General Fund (\$443.0 million total funds) in FY 11-12, for FMAP, caseload growth and rate changes. The General Fund increase is primarily due to the discontinuance of FMAP funds. The total funds increase includes a combination of increases in cash and federal funds pursuant to HB 09-1293 and declining federal funds due to the discontinuance of enhanced FMAP. The request also implements a plan that ensures the benefits of payments to provider hospitals from fees established in HB 09-1293 remain stable through FY 12-13 while funding \$50.0 million of Medicaid caseload growth in FY 11-12.
- **Medicaid Mental Health Community Programs:** Increase of \$29.8 million General Fund (\$25.5 million total funds) for FMAP, caseload and rates. The request represents the funding level that is calculated to provide an “actuarially sound” payment for each Behavioral Health Organization that provides Medicaid services.
- **Children's Basic Health Plan (CHP+) Premium and Dental Benefit Costs:** Increase of \$57.6 million total funds for cost increases. While caseloads are expected to slightly decline, per capita costs are increasing due to high utilization rates for hospital services in past years which drove a considerable increase in the actuarially sound rate calculated for FY 11-12.



Significant FY 2011-12 Budget Actions

Health Care Policy and Financing

- **Cash Fund Insolvency Financing:** Increase of \$28.9 million General Fund to address shortfalls in both the Children's Basic Health Plan (CHP+) Trust Fund and the Health Care Expansion Fund. The request includes \$13.8 million to ensure the solvency of the CHP+ Trust Fund and \$15.2 million to ensure the solvency of the Expansion Fund. The General Fund impact of this request was reduced by utilizing \$26.7 million of federal CHP+ state bonus funds (CHIPRA).
- **Maximize Reimbursement for High Volume Medicaid and Indigent Care Hospitals:** Increase of \$15.9 million total funds (no General Fund) in federal support for eligible safety net hospitals. The request includes \$8.0 million from state hospital certified public expenditures. This amount would be matched by an equal amount of federal funds.
- **Medicaid Fee-for-Service Payment Delay:** Reduction of \$3.6 million General Fund in conjunction with the payment delays submitted on October 22, 2010. This action continues the requested three week delay for FY 2010-11.
- **Delay Managed Care Payments:** Reduction of \$4.3 million General Fund in conjunction with the payment delays submitted on October 22, 2010. This action continues the requested delay from the middle of the month of eligibility to the following month.
- **Indigent Care Program Financing:** Reduction of \$14.0 million General Fund by refinancing tobacco tax funds to offset General Fund Medicaid expenditures and minimizing reductions to community health centers. The reduces the Pediatric Specialty Care line item \$1.5 million General Fund (\$3.0 million total funds).



Significant FY 2011-12 Budget Actions

Health Care Policy and Financing

- **CHP+ Program Cuts:** Reduction of \$12.2 million (\$3.5 million cash funds and \$6.5 million federal funds) implementing five initiatives to make the CHP+ program more efficient by eliminating reinsurance, applying a 3% HMO reduction, changing out of network reimbursement, eliminating pre-enrollment periods and eliminating inpatient coverage for presumptive eligibility.
- **Medicaid Program Cuts:** Reduction of \$14.8 million General Fund (\$30.4 million total funds) by implementing twelve targeted reductions that include a combination of reductions and caps for specific services and increased utilization control to reduce Medicaid program costs.

Higher Education

- **Institutions of Higher Education:** Decrease of \$89.0 million total funds including no change in support thus maintaining the total base with \$555 million General Fund and a decrease of \$89 million Federal Funds reduction due to the expiration of federal recovery funds. This request will result in the College Opportunity Fund Stipend being funded at \$62 per credit hour or \$1,860 per student FTE (30 credit hours).
- **Tuition:** Increase \$94.2 million cash funds provided for informational purposes only. Assumes a 9.0% increase for resident students and a 5.0% increase for non-resident students.

Senate Bill 10-003 provided the governing boards with the authority to increase their undergraduate resident students' tuition by 9.0% in FY 2011-12 through FY 2015-16. In instances where a governing board seeks increases in resident undergraduate tuition over 9.0%, a governing board must gain approval by the Colorado Commission on Higher Education for such authority through a financial accountability plan. The plan explains how the increase will protect the ability of lower and middle income students to afford and attend college. The Commission has sole authority to approve or deny the institution tuition proposals. Final spending authority will be determined by the Commission and updated, for informational purposes, through a budget action.



Significant FY 2011-12 Budget Actions

Human Services

- **Purchase of Contract Placements Line Item Reductions:** Reduction of \$9.2 million General Fund for the Division of Youth Corrections. This makes a previous reduction of \$9.2 million permanent and makes an adjustment for caseload. The Department had planned to spend these funds on its continuum of care initiative.
- **County Tax Base Relief Line:** Reduction of \$2,700,688 General Fund for County Administration. This will eliminate the entire County Tax Base Relief appropriation which provides relief to counties with high social services costs and low property tax values.
- **Food Assistance Administration:** Increase of \$2.4 million General Fund (\$4,715,280 total funds) for the administration of the Food Assistance Program. Counties have seen unprecedented increases in caseload for the Food Administration program and anticipate increasing caseloads in the future.
- **Reallocation of Resources for People with Developmental Disabilities Program Costs:** Increase of \$668,000 General Fund (\$7,465,064 total funds). This request reduces three Developmental Disability programs funded with General Fund and transfer these dollars to the Department of Health Care Policy and Financing to draw down matching federal dollars. This additional funding will cover a shortfall in the Medicaid-funded Developmental Disability programs. The request also adds 16 new Medicaid waiver slots to provide placements for individuals that are Medicaid eligible who will no longer be receiving services through General Fund only programs.
- **Critical Developmental Disabilities Services:** Increase of \$6.2 million General Fund (\$8,679,091 total funds) to provide services for 101 individuals in need of critical Home and Community Based Services, including 60 individuals that are in crisis situations and need emergency services. The request also provides early intervention and preventative services to 630 children that have a developmental disability or delay.



Significant FY 2011-12 Budget Actions

Local Affairs

- **Local Government Severance Tax Cash Fund:** Transfer of \$27.0 million to the General Fund for budget balancing in FY 2011-12. This transfer will still allow for \$10.0 million in grants to be made available in FY 2011-12 from the Local Government Severance Tax Cash Fund. The requested transfer will not impact Direct Distribution payments scheduled to be made by August 31, 2011 from this cash fund.
- **Local Government Mineral Impact Cash Fund:** Transfer of \$15.0 million to the General Fund for budget balancing in FY 2011-12. This transfer will still allow for \$10.0 million in grants to be made available in FY 2011-12 from the Local Government Mineral Impact Cash Fund. The requested transfer will not impact Direct Distribution payments scheduled to be made by August 31, 2011 from this cash fund.

Natural Resources

- **The Perpetual Base Account of the Severance Tax Trust Fund:** Transfer of \$15.0 million to the General Fund for budget balancing in FY 2011-12. The transfer will leave the Department with a balance of \$25.3 million with which to make loans in FY 2011-12.
- **Division of Parks and Outdoor Recreation:** Eliminates the General Fund contribution to State Parks (\$2.7 million) and refinances it as cash funds. This results in a \$1 increase in the daily park fee and requires changing the allocation of the Severance Operational Account by eliminating allocations to the Division of Wildlife.

Personnel and Administration

- **Annual Fleet Vehicle Replacement:** Net reduction of \$123,000 General Fund (\$344,000 total funds reduction) for departments statewide to replace 319 fleet vehicles, including 199 Department of Public Safety State Patrol vehicles and other non-General Fund vehicles that pose a safety risk and are involved in critical health, life and safety functions.



Significant FY 2011-12 Budget Actions

Public Health and Environment

- **Medical Marijuana Registry:** Increase of \$1.1 million from the Medical Marijuana Cash Fund for 18.9 temporary employees and 1.0 FTE as a program director. The volume of medical marijuana registry identification card applications has risen significantly. The additional resources are needed to address the on-going workload issues associated with the increase in applications.
- **Medical Marijuana Cash Fund:** Transfer \$10.0 million from the Medical Marijuana Cash Fund into the General Fund. Revenue for this fund comes from the \$90 application fee paid by patients seeking a medical marijuana identification card. Utilizing this fund balance will not impact current program operations.
- **Newborn Screening and Genetics Counseling Program:** Increase of \$396,637 cash funds and 1.0 FTE to add Severe Combined Immunodeficiency Disorder (SCID) to the blood tests performed on all newborns in the state of Colorado and follow-up testing for Alpha Thalassemia to the Newborn Screening Program.
- **Amendment 35 Programs:** Utilize \$21.0 million from the Prevention, Early Detection and Treatment Fund; Tobacco Education Cash Fund; and Health Disparities Cash Fund to refinance health services which would otherwise require General Fund support in the Department of Health Care Policy and Financing. The affected Amendment 35 grant programs will still receive \$18.4 million after this reduction.



Significant FY 2011-12 Budget Actions

Public Safety

- **Colorado State Patrol Academy Driving Simulator:** Increase of \$145,000 one-time HUTF “Off the Top” associated with the purchase of a driving simulator and software for the Colorado State Patrol Training Academy. The purchase of this equipment will allow CSP trainees to develop high-speed driving techniques in a classroom environment.
- **Colorado State Patrol Electro Muscular Device Technology:** Increase of \$200,000 HUTF “Off the Top” associated with the purchase, deployment and maintenance of TASER devices for all uniformed officers within the Colorado State Patrol (CSP). This request would supply the CSP with 200 TASER devices and ancillary equipment per year over three years and provide for officer-led training for users.

Regulatory Agencies

- **Bank Examiners:** Increase of \$364,276 cash funds and 3.0 FTE for three years to bolster consumer protection to perform necessary bank examinations, an especially important function given the current economy.
- **Securities Field Examiners:** Increase of \$212,155 cash funds and 3.0 FTE to address a substantial increase in the number of licensees of investment advisory firms, achieve necessary staffing ratios to complete minimum examination cycles and ensure consumer protection.
- **Colorado High Cost Support Fund:** Transfer \$20.0 million to the General Fund. A \$15.0 million transfer was made in 2009 pursuant to S.B. 09-272 and S.B. 09-279. This fund subsidizes the cost of basic telephone services for Coloradans who live in rural areas by providing funding to local exchange providers.



Significant FY 2011-12 Budget Actions

Revenue

- **Remittance Processing System Software Upgrade:** Increase of \$180,065 General Fund to upgrade the software for the Department's tax document processing system. The software vendor notified the Department the current software will no longer be supported beginning in July 2011.
- **Sales Tax Delinquency Billings:** Increase of \$121,991 General Fund to expand the number of billings sent to delinquent sales tax accounts. The request is estimated to result in an additional \$2.2 million in General Fund revenue in FY 2011-12.
- **Driver's License Documents:** Increase of \$1.4 million cash funds to cover costs for the projected increase in the number of driver's licenses, commercial driver's licenses, instruction permits, and identification cards issued by the Motor Vehicle offices.
- **Driver and Vehicle Services:** Increase of \$11.1 million HUTF Off-the-Top to refinance the ongoing operation of the Division of Motor Vehicle (DMV) offices throughout Colorado. This request includes a one-time transfer of \$9.8 million from the Licensing Services Cash Fund to the General Fund.



Significant FY 2011-12 Budget Actions

Capital Construction

- **Certificates of Participation (COP):** Allocate \$26.4 million Capital Construction Funds (\$44.0 million total funds) to cover annual COP payments for higher education Federal Mineral Lease funded projects, the Anschutz Medical Campus and the Centennial Correctional Facility Expansion (formerly CSP II).
- **Controlled Maintenance:** Allocate \$10.5 million instead of the estimated \$22.7 million needed for Level I Controlled Maintenance. In addition to the State Architect's estimate for Level I, there is an additional \$39.6 million for Level II and Level III Controlled Maintenance needs in the State that are not being funded.
- **Colorado Integrated Tax Architecture (CITA):** Allocate \$8.6 million Capital Construction Funds to cover the fifth of six phases of system development costs. CITA is the Department of Revenue's project to replace current infrastructure comprised of four separate systems for tax administration that are between 16 and 46 years old. The new system will also allow the Department to track other taxes and fees that are currently not contained within its current systems.
- **Military Readiness Centers:** Allocate \$6.3 million Capital Construction Funds plus \$15.4 million federal funds to complete the construction of Readiness Centers (also known as armories) in Alamosa and Windsor. The state funds leverage a 3 to 1 match from the federal government.



Significant FY 2011-12 Budget Actions

Additional Budget Balancing Actions

- **Statewide PERA Adjustment:** Reduction of \$19.6 million General Fund (\$37.0 total funds) for departments statewide due to a one-year continuation of SB10-146, concerning a one-time FY 2011-12 modification of contribution rates of Public Employee's Retirement Association (PERA). This request would decrease the State's PERA contribution by 2.5% and increase the employee contribution by a corresponding 2.5%.
- **Personal Services Reduction:** Reduction of \$10.0 million General Fund (\$11.0 million total funds) by implementing a one-time 2% reduction to the General Fund portion of all personal services funds for FY 2011-12. Departments will achieve this reduction through vacancies or through other personal services actions as determined necessary to manage to the reduced funding.
- **Pro-Rate Employee Benefits:** Reduction of \$1.4 million General Fund (\$2.0 million total funds) for departments statewide. The State will now offer 100% of health, life and dental benefits only to employees working 50% time or more. Employees working between 49% and 25% time will receive 50% of the employer share and employees working 24% or less time will not receive health, life or dental benefits.
- **Cigarette Tax Rebate:** Eliminate the cigarette tax rebate that is distributed to local jurisdictions for FY 2011-12 and FY 2012-13. According to the September 20, 2010, OSPB Revenue Forecast, the rebate is estimated to be \$11.7 million General Fund.
- **State Sales Tax on Cigarettes:** This proposal requests that the current temporary suspension of the cigarette sales tax exemption be extended through FY 2013-14. The estimated General Fund benefit is projected to be \$31.0 million in FY 2011-12. With this change, cigarette sales will be temporarily subject to state sales tax. There is currently a state excise tax of \$0.84 per pack on cigarettes.



Significant FY 2011-12 Budget Actions

Additional Budget Balancing Actions

- **Sales Tax Vendor Administrative Allowance:** Continue temporary suspension of the vendor administrative allowance for three additional fiscal years, through FY 2013-14. This proposal is expected to increase state revenues by \$71.6 million in FY 2011-12. A partial suspension became effective in FY 2008-09 and became a full suspension in FY 2009-10. Prior to the suspension, vendors retained 3.3% of state sales tax collections as an administrative allowance.
- **Limited Gaming Revenue Transfers:** This proposal requests a legislative change for FY 2011-12 gaming revenue distributions to limit transfers of statutorily defined allocations of limited gaming moneys to the Colorado Travel and Tourism, New Jobs Incentives, State Council on the Arts, Film Incentives, and Clean Energy cash funds. This recommendation will result in tourism and associated programs being funded at 50% of the FY 2007-08 funding level. The recommendation will also result in no transfer to the Clean Energy Fund. The change will result in \$21.8 million of gaming revenues flowing into the General Fund.
- **Fire and Police Pension Fund (FPPA):** This proposal continues the existing suspension of the state contribution to the FPPA “Old Hire” Pension Plans for an additional two years. If approved, the state would lower its General Fund obligations by \$25.3 million in each of the next two years.