

STATE OF COLORADO

OFFICE OF STATE PLANNING AND BUDGETING

111 State Capitol Building
Denver, Colorado 80203
(303) 866-3317



Bill Ritter, Jr.
Governor
Todd Saliman
Director

January 15, 2009

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

Dear Senator Keller:

Thank you for the opportunity to submit Governor Ritter's budget balancing plan for FY 2008-09. According to the Governor's direction, we have given the highest priority to protecting life safety and public health. In addition, the Governor has directed me to protect higher education funding to the extent possible. As previously indicated, Governor Ritter will submit his plan for balancing FY 2009-10 on January 23rd.

Governor Ritter's top priority for this year is to prudently manage Colorado's state budget and create jobs. Like many other states, Colorado's economic uncertainty and State revenue shortfalls present significant challenges. OSPB believes there will be a significant General Fund revenue shortfall in FY 2008-09 and FY 2009-10 and that the impact of the current recession will be felt well into the future.

In an effort to coordinate efforts with the JBC and the General Assembly who will likely use their own forecast to balance the budget, Governor Ritter's plan balances to the Legislature's economic forecast. This results in the Governor's proposal balancing to a General Fund revenue shortfall of \$631.9 million in FY 2008-09 and a further shortfall of \$385.5 million in FY 2009-10.

We are proposing contingencies should the shortfall be either greater or less than forecasted. Discussions continue at the federal level regarding a proposed federal recovery package. It is possible Colorado could receive funding through this package that could partially offset the need for some of the changes outlined in this proposal. Should federal funding materialize we believe the top priority should be to avoid reductions to the 4.0 percent General Fund statutory reserve in FY 2008-09. If there are federal funds from the recovery package in excess of what is needed to fully fund the 4.0 percent reserve, we recommend the cash fund transfers included in this proposal be avoided in the order that they are listed on the attached cash fund transfer spreadsheet.

The Governor's plan contains General Fund shortfall proposals for FY 2008-09 totaling \$631.9 million. These FY 2008-09 proposals do the following: (1) reduce General Fund expenditures by \$201.1 million; (2) provide for transfers and diversions to the General Fund totaling \$289.7 million; (3) lower the State's statutory 4.0 percent reserve by \$134.1 million; and (4) adjust for \$7.0 million not expended but authorized under the 6.0 percent limit. The General Fund expenditures reduced includes \$34.8 million from General Fund obligations and \$166.3 million from General Fund appropriations. The Governor is also proposing stop-gap measures in the event the shortfall is greater than \$631.9 million.

Highlights of Governor Ritter's FY 2008-09 Balancing Plan

Each of the Governor's proposals is described in an accompanying executive factsheet designed to provide information on each of the proposals. The following information is a summary of the Governor's FY 2008-09 Balancing Plan, described in more detail in the factsheets.

General Fund Expenditure Reductions

- **Reducing General Fund Expenditures.** The Governor's Proposal reduces \$201.1 million General Fund in FY 2008-09. The General Fund reduction is comprised of \$34.8 million from FY 2008-09 General Fund obligations and \$166.3 million from FY 2008-09 General Fund appropriations. The Governor proposes to eliminate Fire and Police Pension Association (FPPA) payments of \$34.8 million in FY 2008-09 (with no payments resumed until FY 2011-12). The \$166.3 million in General Fund reductions is comprised of the following: (1) combined \$9.3 million General Fund associated FY 2008-09 appropriations for the Judicial, Law, and Legislative budgets and (2) other reductions to executive department FY 2008-09 appropriations totaling \$157.0 million. The \$157.0 million is inclusive of the General Fund savings from the hiring freeze. Attached to this letter is an updated hiring freeze summary.

- The current General Fund appropriation is \$7,519.2 million; the allowable limit under Section 24-75-201.1, C.R.S. is \$7,546.9 million. The Governor's proposal to balance to the FY 2008-09 \$631.9 million General Fund revenue shortfall is calculated against this statutory spending limit of \$7,546.9 million. This authorized General Fund spending limit is reflected in both the legislative and executive economic forecasts. The calculation of a shortfall assumes that General Fund is spent up to that limit; thus reductions are taken against this estimated allowable for purposes of comparison to this common benchmark. The \$7,546.9 million includes \$27,669,665 General Fund that is higher than the FY 2008-09 appropriation made by the General Assembly last year. Counting toward this \$27.7 million General Fund are the supplementals OSPB has submitted; these include \$895,403 General Fund of "1331" emergency appropriations sought and approved and \$4,148,532 General Fund of supplemental increases requested on January 2, 2009. In addition, OSPB has "placeholders" of \$15,614,910 General Fund for February 16th submissions, primarily for Medicaid and the Department of Human Services. In total, these increases calculate to \$20,658,845 General Fund toward this authorized growth of \$27,669,665. The difference between the authorized growth level and the General Fund increases that are sought is \$7,010,820 which will not be spent. This \$7,010,820 figure is simply reflected as funds authorized under the limit but not spent this year.

Transfers and Diversions to the General Fund

- Higher Education Maintenance and Reserve Fund. The Governor's proposal takes the existing FY 2008-09 Higher Education Maintenance and Reserve Fund balance and supplements it with additional dollars. These funds are then transferred into the General Fund to smooth the General Fund revenue shortfall over a three-year period. In September, the Governor took actions to protect taxpayers and tighten the state's spending belt. Among these actions was direction to delay spending for capital projects. The delay in FY 2008-09 state building capital spending has saved \$50,278,532 in the Capital Construction Fund. The Governor's proposal provides for this sum to be transferred from the CCF to the Higher Education Maintenance and Reserve Fund created in Section 23-19.9-102, C.R.S. (2008). In addition, the Governor's Plan takes an additional \$43,411,136 out of the Capital Construction Fund attributable to implementation of newly recommended capital construction delays and transfers this sum to the Higher Education Maintenance and Reserve Fund. These sums, combined in the Maintenance and Reserve Fund, along with anticipated interest earnings and the Maintenance and Reserve Fund Balance, will allow for transfers to the General Fund in FY 2008-09, FY 2009-10, and FY 2010-11 to mitigate the impact of the General Fund revenue shortfall affecting Higher Education. This strategy allows for General Fund increases of \$47.2 million in FY 2008-09, FY 2009-10, and FY 2010-11 (\$141.6 million in total for all three years). The out-year impact from reduced capital construction obligation also helps reduce expenditure pressure in out-years.

- Gaming Revenue Diversion. Under current law, 100 percent of the gaming revenue for Colorado Travel and Tourism Promotion, New Jobs Incentives, the State Council on the Arts, and the Film Incentives Cash Fund would be transferred into the General Fund due to the General Fund revenue shortfall and the inability of the State to meet its 6.0 percent General Fund appropriation. The Governor's proposal reduces the impact to these critical industries by proposing a change in law to ensure they continue to receive 50 percent of their current funding. Of this total distribution to programs, Colorado Travel and Tourism Promotion will receive \$10,432,860 that it would not have received under the current forecast, the New Jobs Incentive Cash Fund will receive \$1,647,294 that it would not have received under the current forecast, the State Council on the Arts Cash Fund will receive \$823,647 that it would not have received under the current forecast, and the Film Incentives Cash Fund will receive \$329,459 that it would not have received under the current forecast. While funding these important economic and job-producing programs, the Governor's proposal allows the General Fund to receive \$11,897,263 in FY 2008-09.

- Vendor Fee Change. According to the Federation of Tax Administrators, 19 other states have a sales tax but do not allow a vendor discount. Colorado's current vendor discount is the most generous among states. The Governor's Proposal provides for a change in the vendor fee which increases available General Fund revenues by \$12,800,000 in FY 2008-09. Vendors are compensated for the administrative costs associated with their collection of state sales taxes. Vendors are allowed to keep a portion of these revenues, equal to 3 1/3 percent of total sales tax revenues. The Governor's proposal caps the amount a vendor could retain, up to \$5,000 annually, effective February 1, 2009 and continuing through June 30, 2012. The FY 2008-09 savings is prorated for the second half of the fiscal year. This proposal will affect approximately 1,700 of the state's 91,500 vendors.

- Cash Fund Transfers to the General Fund. The Governor's proposal transfers \$207.1 million from cash fund untapped balances to the General Fund in FY 2008-09. The majority of these transfers are one-time in nature. A list of these cash fund transfers is attached.
- Other General Fund Revenue Infusions. The Governor's proposal includes \$10.7 million General Fund increases associated with various initiatives. This includes \$10,500,000 proposed to divert from the UI Trust Fund and \$152,217 General Fund impact associated with an expenditure reduction to the Division of Insurance Cash Fund in the Department of Regulatory Agencies.

General Fund Reserve Change

- Reserve change. The Governor's Proposal reduces the statutory General Fund reserve by \$134.1 million for FY 2008-09. This one-time General Fund change is necessary due to the timeframe of the General Fund shortfall as there is very little time to make up the difference in the current year. The Governor's proposal assumes that the reserve is replenished in FY 2010-11.

Other Budget Management

- Authorization for End-of-Year Revenue Management. The Governor's Proposal seeks statutory authority to provide flexibility to the executive to reduce the State's (4.0 percent) General Fund reserve down to 0.0 percent of FY 2008-09 General Fund appropriations at the end of the fiscal year if General Fund revenues further decline beyond the current Legislative Council Staff economic forecast while the General Assembly is out of session.

I look forward to working with you as we together address this significant budget challenge for Colorado. Should you have any questions about any of these requests, please do not hesitate to contact me or my staff.

Sincerely,



Todd Saliman
Director, Office of State Planning and Budgeting

cc: The Honorable Representative Jack Pommer, Vice-Chairman
The Honorable Senator Abel Tapia, Member of the Joint Budget Committee
The Honorable Senator Al White, Member of the Joint Budget Committee
The Honorable Representative Mark Ferrandino, Member of the Joint Budget Committee
The Honorable Representative Don Marostica, Member of the Joint Budget Committee
Mr. John Ziegler, Staff Director of the Joint Budget Committee
Mr. Jim Carpenter, Chief of Staff, Governor Bill Ritter, Jr.

OSPBB GF Balancing Plan Due to Revenue Shortfall FY 2008-09

Area	General Fund			Comment
	Total GF	One-time GF	Ongoing GF	

(a) GF REVENUE CHANGES

<u>Transfers and Diversions</u>				
Total of CF to Transfer to GF	207,109,023	118,187,788	70,000,000	Transfer to GF
Other GF Revenue Changes	10,652,217	10,652,217	0	UI Trust Fund Diversion (\$10,500,000) and Division of Insurance CF Reduction (\$152,217)
Higher Education Maintenance and Reserve Fund Transfer to GF	47,200,000	47,200,000	0	GF Transfer
Reduce Vendor Fee	12,800,000	12,800,000		Revenue increase to GF
Gaming	11,897,263	0	11,897,263	GF Diversion/Transfer
<u>Reserve Changes</u>				
Reserve Change - one-time	134,129,109	134,129,109	0	Lower GF reserve in FY 08-09
SUBTOTAL GF REVENUES	424,787,617	327,969,114	81,897,263	

(b) GF EXPENDITURE CHANGES

<u>GF Obligations:</u>				
FPPA	(34,777,172)	(34,777,172)	0	GF Obligations
<u>GF Appropriations:</u>				
Approved Department/OSPBB Dept Reductions	(156,992,364)	(144,732,033)	(10,284,719)	Recommended reductions
Treasury Reductions	(25,792)	(25,792)	0	Treasury reduction request
Other Elected Officials (except Treasury)	(9,306,240)	0	(9,306,240)	2.5% Calculation of FY 08-09 approp.
SUBTOTAL GF EXPENDITURES	(201,101,568)	(179,534,997)	(19,590,959)	

(c) OTHER CHANGES

Delay Capital Construction (Sept 08 Actions)	0	0	0	Take \$50,278,532 out of Cap Constr Fund
Transfer Capital Construction to Maint & Reserve Fund	0	0	0	Transfer into Maint & Reserve Fund
Additional Projects Funded but Not Under Construction	0	0	0	Take \$43,411,136 out of Cap Constr Fund
Transfer of Additional CCF Delay to Maint & Reserve Fund	0	0	0	Transfer into Maint & Reserve Fund
FY 2008-09 Anticipated Underage to 6% (excluding \$631M actions)	(7,010,820)	0	(7,010,820)	See letter's explanation
Subtotal OTHER CHANGES	(7,010,820)	0	(7,010,820)	

Executive Department	Total	GF	CF	Reapprop. (T)	HUIF	FF	MCF	MGR	NetGF	RTE
Agriculture	(293,388)	(271,773)	(21,615)	-	-	-	-	-	(271,773)	0.0
Corrections	(3,813,436)	(4,613,436)	800,000	-	-	-	-	-	(4,613,436)	0.0
Education	(48,331,423)	(54,571,463)	2,760,121	3,479,919	-	-	-	-	(54,571,463)	0.0
Governor's Office	(1,222,738)	(2,560,759)	205,221	1,132,800	-	-	-	-	(2,560,759)	0.0
Health Care Policy and Financing	(84,863,458)	(37,862,015)	(3,488,344)	(969,597)	-	(42,543,502)	-	-	(37,862,015)	0.0
Higher Education	(59,081,568)	(30,000,000)	(15,001)	(29,066,567)	-	-	-	-	(30,000,000)	0.0
Human Services	(38,306,631)	(19,512,255)	(909,971)	(18,258,587)	-	374,182	(18,174,011)	(9,087,006)	(28,599,261)	(37.6)
Labor and Employment	(427,039)	-	(364,139)	467	-	(63,367)	-	-	-	0.0
Local Affairs	(319,346)	(339,467)	(38,114)	51,288	-	6,947	-	-	(339,467)	0.0
Military Affairs	(242,338)	(168,731)	-	(73,607)	-	-	-	-	(168,731)	0.0
Natural Resources	(2,737,624)	(1,280,571)	(1,438,062)	3,489	-	(24,480)	-	-	(1,280,571)	0.0
Personnel	(342,071)	(211,302)	(13,095)	(117,674)	-	-	-	-	(211,302)	0.0
Public Health & Environment	(2,633,420)	(526,550)	(2,129,793)	99,928	-	(77,015)	(6,361)	(1,907)	(528,457)	0.0
Public Safety	(2,008,071)	(2,008,071)	-	-	-	-	-	-	(2,008,071)	0.0
Regulatory Agencies	(938,932)	(47,624)	(895,814)	4,255	-	251	-	-	(47,624)	0.0
Revenue	(428,533)	(3,018,347)	2,070,433	-	519,381	-	-	-	(3,018,347)	0.0
Transportation	-	-	-	-	-	-	-	-	-	0.0
Total Executive	(245,990,016)	(156,992,364)	(3,476,163)	(33,640,279)	\$ 519,381	(42,400,597)	(18,180,372)	(9,088,913)	(156,992,364)	(37.6)

Cash Fund Transfer Recommendations - Office of State Planning and Budgeting January 15, 2009							
Priority for Removal from List	Department	Name of Fund	Purpose of Fund	OSP Recommended Transfer FY 2008-09	OSP Recommended Transfer FY 2009-10	OSP Recommended Transfer FY 2010-11	OSP Recommended Transfer FY 2011-12
1	Education	17H- Public School Contingency Reserve Fund	State Board can approve payments to schools facing financial burdens and emergencies.	\$1,166,226	\$0	\$0	\$0
2	DNR	#424 CWCBC Construction Fund	The first priority of the moneys available to the fund shall be devoted to projects which will increase the beneficial consumptive use of Colorado's undeveloped compact entitled waters.	\$10,000,000	\$0	\$0	\$0
3	HCPF	Supplemental Old Age Pension Health and Medical Care Fund	Additional funding for the Constitutionally created Old Age Pension Health and Medical Care Fund. Clients >60 but not eligible for Medicaid or SSI. Fund reimburses providers for health care services of this population.	\$7,377,298	\$0	\$0	\$0
4	Transportation	State Infrastructure Bank #715	To provide loans and grants to public and private entities for the acquisition, improvement, or construction of highways, multimodal transportation, and intermodal transportation facilities in the state.	\$3,000,000	\$0	\$0	\$0
5	Public Health	18N- Prevention, Early Detection, and Treatment	Provides funding for early detection and treatment programs for cancer and cardiovascular disease.	\$4,904,341	\$0	\$0	\$0
6	Agriculture	108 Brand Inspection	Issuance, tagging, and inspection of brands on livestock to protect owners from losing livestock due to loss or theft.	\$500,000	\$0	\$0	\$0
7	Public Health	20Q-Short Term Innovative Health Care Grants.	Short term grants for innovative health programs.	\$4,352,319	\$1,558,984	\$1,558,984	\$1,558,984

Priority for Removal from List	Department	Name of Fund	Purpose of Fund	OSPB Recommended Transfer FY 2008-09	OSPB Recommended Transfer FY 2009-10	OSPB Recommended Transfer FY 2010-11	OSPB Recommended Transfer FY 2011-12
8	DNR	Perpetual Base Account of the Severance Tax Trust Fund	The perpetual base account shall be used for state water projects pursuant to sections 37-60-119 and 37-60-122, C.R.S. The authorization and contract for each such project shall require repayment of principal and interest to the fund, and moneys so repaid shall be credited to the perpetual base account of the fund.	\$20,000,000	\$0	\$0	\$0
9	DOLA	#152 - Local Govt Tax Fund	Distribution of grants and loans to mineral development impacted local governments for construction and operation of public facilities and services.	\$15,000,000	\$15,000,000	\$0	\$0
10	Military and Veterans Affairs	Veterans Trust Fund	Provides grants to non-profit veterans groups and organizations, the division, and state veterans nursing homes / cemeteries	\$4,585,627	\$0	\$0	\$0
11	Public Health	116- Hazardous Substance Response Fund	Cash funding for the state's participation in the federal superfund program	\$10,000,000	\$0	\$0	\$0
12	HCPF	Breast and Cervical Cancer Prevention and Treatment Fund	Provides Medicaid services for women <65 diagnosed with breast or cervical cancer but without health insurance.	\$6,000,000	\$0	\$0	\$0
13	HCPF	Children's Basic Health Plan Trust	Main Fund: Fund can only be used for operations and services for the Children's Basic Health Plan. Unspent fund balance does not revert to General Fund at fiscal year end. General Assembly establishes annual limitations on use of funds via appropriations.	\$4,270,540	\$0	\$0	\$0
14	Public Health	20 Y- Recycling Resources Economic Opportunity Fund	To fund grants to promote economic development through the sustainable management of discarded materials	\$1,000,000	\$0	\$0	\$0

Priority for Removal from List	Department	Name of Fund	Purpose of Fund	OSPBP Recommended Transfer FY 2008-09	OSPBP Recommended Transfer FY 2009-10	OSPBP Recommended Transfer FY 2010-11	OSPBP Recommended Transfer FY 2011-12
15	Labor and Employment	Fund 142 - Workers' Compensation Fund	To fund the Workers' Compensation program which assures quick and efficient delivery of disability and medical benefits to injured workers at a reasonable cost to employers.	\$15,700,000	\$0	\$0	\$0
16	Labor and Employment	Fund 416 - Subsequent Injury Fund	Provides compensation benefits to injured workers who have become permanently, totally disabled from more than one industrial accident.	\$26,500,000	\$0	\$0	\$0
17	Labor and Employment	Fund 417 - Major Medical Fund	To fund benefits for workers who sustained catastrophic injuries between July 1, 1971 and June 30, 1981.	\$69,500,000	\$27,000,000	\$0	\$0
18	DOLA	#274 Limited Gaming Impact Fund	For the purpose of providing financial assistance to designated local governments for documented gaming impacts.	\$950,000	\$1,000,000	\$0	\$0
19	Personnel and Administration	Fund 607 - "Fleet Management"	Charges to State agencies to cover the costs of maintenance and operation of the State's motor vehicle fleet. Services include leasing vehicles to State agencies and authorizing all vehicle related expenses.	\$500,000	\$0	\$0	\$0
20	Transportation	State Rail Bank #11R	To fund the acquisition of abandoned railroad rights-of-way	\$1,543,937	\$0	\$0	\$0
21	Public Health	14V- Medical Marijuana	Fund used to maintain the marijuana registry, accept and evaluate applications for medical marijuana use and issue identification cards	\$258,735	\$40,000	\$30,000	\$0
	Total			\$207,109,023	\$44,598,984	\$1,588,984	\$1,558,984

January 15, 2009

Updated FY 2008-09 Hiring Freeze Savings Report Summary
Positions and Contracts Frozen by Departments and/or Governor's Office

Department	January 5, 2009 Estimate				Updated Estimate				TF Difference
	TF State Employees plus Contracts	GF State Employees plus Contracts	TF Schedule 13	GF Schedule 13	CF Schedule 13	RF Schedule 13	FF Schedule 13	GF Difference	
Agriculture	\$86,604	\$30,623	\$82,011	\$82,011				\$51,388	(\$4,593)
Corrections	\$31,736	\$31,736	\$31,736	\$31,736	\$0	\$0	\$0	(\$0)	(\$0)
Governor's Office	\$292,981	\$292,981	\$239,046	\$0	\$0	\$239,046	\$0	(\$292,981)	(\$53,935)
Health Care Policy and Financing	\$1,465,024	\$720,827	\$1,697,086	\$797,270	\$0	\$0	\$899,816	\$76,443	\$232,062
Higher Education	\$112,790	\$0	\$112,790	\$0	\$15,001	\$97,789	\$0	\$0	(\$0)
Human Services	\$2,040,012	\$1,082,837	\$2,040,012	\$1,010,551	\$15,572	\$173,105	\$840,784	(\$72,286)	(\$0)
Labor and Employment	\$474,242	\$0	\$474,243	\$0	\$387,975	\$0	\$86,268	\$0	\$1
Local Affairs	\$160,358	\$19,129	\$160,358	\$19,129	\$36,657	\$54,643	\$49,929	\$0	\$0
Military and Veterans Affairs	\$92,009	\$18,402	\$102,009	\$28,402	\$0	\$0	\$73,607	\$10,000	\$10,000
Natural Resources	\$3,243,838	\$536,940	\$2,194,670	\$512,867	\$1,653,479	\$0	\$28,324	(\$24,073)	(\$1,049,168)
Personnel and Administration	\$238,076	\$70,199	\$301,864	\$92,863	\$62,253	\$146,748	\$0	\$22,664	\$63,788
Public Health and Environment	\$392,453	\$35,706	\$392,453	\$35,706	\$294,393	\$50,861	\$11,493	(\$0)	\$0
Public Safety	\$28,926	\$28,926	\$123,126	\$123,126	\$0	\$0	\$0	\$94,200	\$94,200
Regulatory Agencies	\$792,123	\$0	\$766,273	\$0	\$766,273	\$0	\$0	\$0	(\$25,850)
Revenue	\$792,213	\$162,888	\$604,205	\$135,258	\$468,947	\$0	\$0	(\$27,630)	(\$128,006)
Transportation	\$1,970,048	\$0	\$1,970,048	\$0	\$1,970,048	\$0	\$0	\$0	(\$0)
Treasury	\$24,914	\$0	\$24,914	\$0	\$24,914	\$0	\$0	\$0	(\$0)
Difference								(\$162,274)	(\$861,505)
Grand Total FTE and Contracts	\$12,178,349	\$3,031,193	\$11,316,844	\$2,868,919	\$5,695,512	\$762,192	\$1,990,221		

Departments were requested to reduce their budget by the amount in the January 5, 2009 Hiring Freeze Savings Report. During this process, some departments made corrections to the data. These corrections are noted at the bottom of each department's Schedule 13; except for the Department of Natural Resources, which instead attached a revised reconciliation. This table is a summary; the Schedule 13s represent the official request.

The Department of Personnel and Administration's Hiring Freeze has an additional \$41,302 GF statewide impact that is not quantified in Schedule 13s. The Department of Health Care Policy and Financing could not achieve the entire Hiring Freeze Savings through its Personal Services lines, so used a reduction of \$225,256 to Operating Expenses to achieve the amount. That number is included in the Schedule 13 for the Hiring Freeze Reduction.

The Health Care Policy and Financing amount is supplemented in this table by amounts reduced in its budget due to reductions in DHS and DPHE budgets.