



COLORADO FISCAL POLICY INSTITUTE

Justice and Economic Security for *all* Coloradans

Governor's Budget Request FY 2009-2010

On Thursday, November 13th, Governor Bill Ritter presented his proposed budget for FY 2009-2010 to the Joint Budget Committee. Noting fast-changing economic conditions, the Governor requested that his Office of State Planning and Budgeting (OSBP) produce an interim revenue forecast upon which he bases his budget request. While that forecast shows enough revenues to fully fund the 6 percent General Fund appropriations directive, it also predicts negative sales tax revenue growth, fewer income tax revenues from capital investments and wages, and lowered corporate income tax revenue. As a result, the Governor's budget employs a cautious approach and calls for further preparation for a worsening economy.

The Basics

The New Rainy Day Fund

In an unusual move, the Governor's budget calls for lowering growth in General Fund appropriations for operations from the allowed 6 percent to 4.98 percent and setting aside the difference of \$77 million for a reserve fund. This money will be in addition to the 4 percent statutory reserve and appropriated to the Controlled Maintenance Trust Fund (CMTF). If revenues are adequate to fund the budgeted increases in programs (4.98 percent), then at the end of the year (June 2010) \$40 million of the reserve will become part of a permanent rainy day fund, \$30 million will be transferred to the Highway Users Tax Fund (HUTF) for transportation projects, and \$7 million will fund economic development activities.

Total Funding

The Governor's budget request totals \$19.24 billion in total funds, a change of 3.4 percent, or \$624 million, over the prior year's budget of \$18.61 billion.

Total General Fund budget request, including General Fund revenues outside the 6 percent Arveschough-Bird directive, is \$8.15 billion, a 6.3 percent or \$480 million increase from the FY 2008-09 total \$7.67 billion.

The total FY 2009-10 General Fund budget subject to the 6 percent equals \$7.99 billion, or \$452.8 million over the \$7.54 billion FY 2008-09 base. The \$452 million increase includes the 4.98 percent or \$375 million increase for General Fund program spending and the \$77 million reserve allocated to CMTF.

Economic Stimulus

The FY 2009-10 request allocates \$4.9 million in new General Fund toward economic development and job creation. Half of this money, \$2.5 million, will fund a new “Access to Capital” initiative for small business. The Governor provided no detail on this program, but noted that it is intended to allow small businesses easier access to credit and will be administered through the Office of Economic Development (OED). At this time, the OED is working with the Colorado Bankers Association, Small Business Administration, and other business organizations to develop the program. The OED expects to provide more information to the legislature during by the start of the 2009 session.

The remaining funds will be used to enhance “green” job training programs and grant programs in the biosciences.

General Fund Program Highlights

The budget proposal increases General Fund appropriations for K-12 education by \$120.5 million, or 3.8 percent, to \$3.3 billion and provides \$60 million to expand full-day kindergarten by 8,755 students. It also includes a supplemental request to refinance \$26.56 million in General Fund with State Education Fund dollars.

The Governor’s budget request also increases General Fund appropriations for Higher Education by \$40 million (5.0 percent).

Human Services General Fund appropriations are increased by \$22 million, or 3.3 percent, to support, among other things, increasing needs in the Child Welfare System and additional community services for persons with development disabilities.

The budget requests \$113 million in additional funds for the Department of Health Care Policy and Financing, a 7.5 percent increase that partially accounts for a 10.6 percent increase in Medicaid caseloads. According to health policy staff, the Governor’s budget reflects the desire to find savings through efficiencies and prevent roll-backs on modest gains made during FY 2008-09.

Corrections and Public Safety receive the largest percent increases in General Fund appropriations, 9.3 percent and 9.8 percent respectively. The budget invests \$10.6 million total funds (\$9.5 million General Fund) to the Crime Prevention and Recidivism Package. OSBP predicts savings over a five year span of roughly \$380 million in Youth Corrections, Child Welfare and prison capital costs to result from this package. The Corrections budget also adds \$63 million from the General Fund to account for new prisons as well as inflation and caseload increases. The budget reduced General Fund appropriations by \$5.7 million for expanded diversion capacity in the community corrections system.

Military and Veterans Affairs receives a \$265,703 increase to begin planning and design of a residential care center for veterans.

FTE and Compensation Highlights

There is an increase of 907.5 FTE (1.8 percent) over the FY 2008-09 budget. Most of the increase comes from the 2007 Judges Bill and bringing a new state prison online.

The Governor's budget cuts \$36 million in funds for performance-based pay awards for state employees, but does allow for market-survey increases.

Transportation

The Transportation budget reflects a 39 percent, or \$332.3 million, decrease in cash funds. Federal funds decrease by 21.7 percent, or \$97 million. Also, the S.B 97-01 transfer is lower and there is no transfer from H.B. 02-1310.

The off-the-top HUTF appropriation for FY2009-10 is \$97.4 million to Department of Public Safety, \$9.95 million to the Department of Revenue, \$1.2 million for capital construction request and \$0.4 million as a legislative set-aside for possible budget amendments.

Our Take

The Colorado Fiscal Policy Institute (COFPI) commends the Governor's team for producing a cautious budget that plans for a deepening recession. We have long supported the notion of a rainy day fund large enough to mitigate cuts to critical programs during a downturn. Given the current national economy – huge job losses and volatile markets – we also believe it is prudent to plan now for further declining revenues and not grow General Fund programs by the allowable 6 percent. However, we do have concerns that this budget builds a rainy day fund with revenues below the 6 percent and moves the bulk of them (\$40 million) offline at a time when greater public investments are exactly the kind of stimulus that could help put Coloradans back to work and support assistance to other struggling families. With unemployment on the rise, the need for Coloradans to access public services will rise accordingly, as we are already seeing with increasing Medicaid caseloads and Unemployment Insurance claims. We encourage the Governor and the legislature to work to ensure timely access to programs that will help families weather this difficult time, and to think creatively about the government's role in helping to sustain and create jobs.

COFPI also applauds the Governor's creative attempt to help small businesses access credit through his "Access to Capital" initiative. However, we would want to ensure that the new program be fully accountable and transparent to ensure that this money, which is being redirected from other General Fund priorities like Medicaid and Human Services, be spent wisely and effectively.

We look forward to working with the Governor's Office and the Legislature to ensure a balanced, responsible budget that plans for the future and maximizes the power of public investment to help us navigate through troubled times.

Just last week, on the same day that the Governor presented to the Joint Budget Committee, COFPI released a research paper that explored six case studies where public investment was effectively utilized to solve large-scale problems. In four of the applicable cases, the analysis validates the view that increasing public investments during difficult economic times, as opposed to decreasing such investments, is an effective strategy for economic progress. Pulling public investments out of the economy during a recession can have drastic and negative consequences. While we understand and admire the Governor's cautious approach in uncertain times, and we also understand the stifling constitutional and statutory restrictions on state investments, we also hope Governor Ritter recognizes that bold public investments can and do propel broader economic growth.