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Colorado's revenue crisis projected to force a fourth round of deep cuts to services in 2011-12

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The Colorado Fiscal Policy Institute is a project of the Colorado Center on Law and Policy, a nonprofit, nonpartisan research and advocacy organization seeking justice and economic security for all Coloradans.

Based on projected revenues the 2011-12 budget will come up more than \$954.1 million short of what will be needed to maintain the current level of state services.

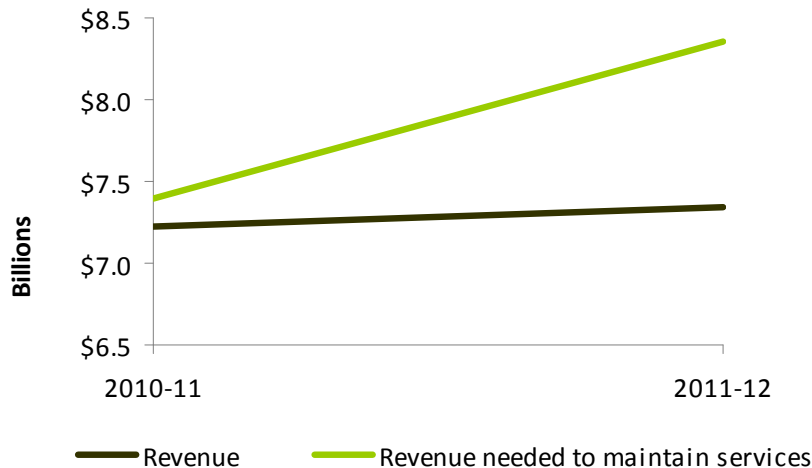
The budget crisis gripping Colorado shows no signs of letting up, and Colorado's shortage of revenue will hurt the state budget for a fourth year, requiring another round of deep cuts to services in fiscal year 2011-12.

The Colorado Legislative Council staff's (LCS) economic and revenue projections released June 21 anticipate tax revenue will fail to keep pace with spending needs during the next 18 months. That will not only prompt the governor and the Legislature to make additional cuts to services in the 2010-11 budget, but it also means an even greater crisis looms for the 2011-12 budget, which state lawmakers will begin crafting in less than five months.

The Colorado Fiscal Policy Institute analyzed LCS projections and a Joint Budget Committee (JBC) staff review of those projections. The analysis shows the 2011-12 budget will fall \$954.1 million short of what will be needed to maintain the current level of state services (Figure 1), including public schools, colleges, child protective services, courts, and health care. The projected shortfall threatens not only critical services that Colorado families depend on, but also the fragile economic recovery.

Figure 1

General Fund revenue not sufficient to sustain services



Source: Colorado Legislative Council staff, Joint Budget Committee staff and COFPI analysis

At a minimum, the state is not expected to have enough revenue to continue funding services at their current levels even if spending is unchanged from 2010-11 to 2011-12, not to mention the effects of inflation, caseload growth, population growth and increased need for services.

The size of the continuing budget crisis depends on a number of variables, many of which are difficult to predict more than a year ahead of time. At a minimum, the state is not expected to have enough revenue to continue funding services at their current levels even if spending is unchanged from 2010-11 to 2011-12, not to mention the effects of inflation, caseload growth and population growth.

Summary of the budget shortfall in 2011-12

Figure 2

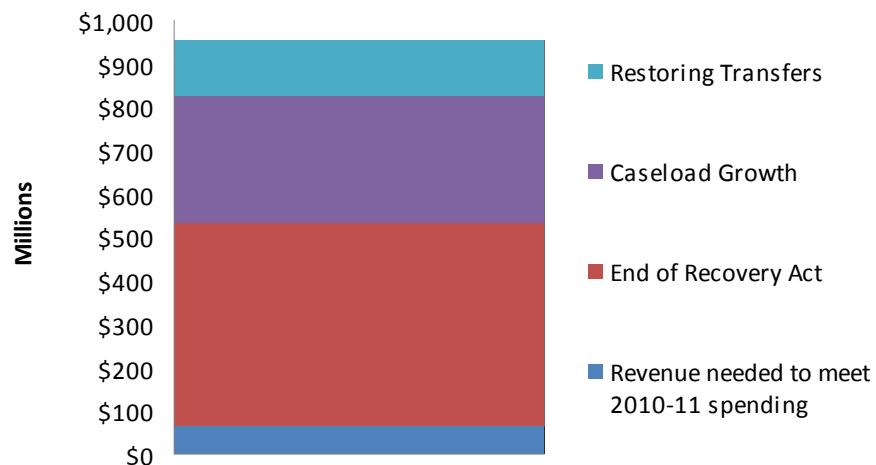
	Millions
Needed to meet 2010-11 spending	\$63
End of Recovery Act aid	\$470.4
Caseload growth	\$290.5
Restoring transfers	\$130.2
Total shortfall	\$954.1

Source: Joint Budget Committee staff and COFPI analysis

Barring an unexpected downturn in the economy, the additional cuts to the 2010-11 budget will range from \$75.7 million to \$287.4 million depending on whether Congress approves an extension of additional federal Medicaid support, according to estimates provided by Colorado’s Office of State Planning and Budgeting (OSPB). But the budget shortfall facing Colorado in 2011-12 is even more startling and is therefore the primary focus of this analysis. That budget dilemma facing lawmakers in 2011-12 can be divided into four categories (Figures 2 and 3) — a shortage of revenue for maintaining services at the prior year’s level, the loss of federal aid from the American Recovery and Reinvestment Act of 2009, caseload growth, and restoring transfers made in recent years.

Figure 3

2011-12 General Fund shortfall



Source: Joint Budget Committee staff and COFPI analysis

Insufficient revenue

The most certain portion of the projected shortfall is the loss of federal aid that has helped the state supplement budgets in the three previous fiscal years, 2008-09 through 2010-11. During those years Colorado is expected to receive about \$1.7 billion in fiscal stabilization funds, largely for higher education and

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prisons, and an enhanced Federal Medical Assistance Percentages (FMAP) for Medicaid through the Recovery Act. Those federal funds have allowed the state to reduce the amount of state General Fund money spent on Medicaid, colleges, and prisons and, in turn, allowed the state to reduce cuts in all other areas of the General Fund budget. The enhanced FMAP and the fiscal stabilization funds are expected to account for \$470.4 million of the 2010-11 budget before expiring and leaving an equally large hole in the 2011-12 budget.

At a little more than \$7 billion, Colorado’s General Fund is expected to account for about 36 percent of the state’s \$19.6 billion budget. The General Fund is comprised largely of collections from income and sales taxes. And it is the primary source of funding for most of the general functions of state government.

Although the LCS projects in 2011-12 General Fund revenues will increase from the previous year, the amount of revenue is expected to be lower than the pre-recession level of four years earlier and the JBC staff estimates it will be \$63 million shy of the amount needed to pay the entire General Fund obligations in the 2010-11 budget. That shortage, combined with the end of the Recovery Act assistance will account for \$533.4 million of the total budget shortfall in 2011-12 (Figure 4).

Insufficient revenue

Figure 4

	Millions
Maintaining 2010-11 General Fund obligations	\$7,411.2
Projected General Fund revenue	\$7,348.2
Beginning General Fund shortfall	\$63
End of the Recovery Act aid	\$470.4
Total insufficient revenue	\$533.4

Source: Joint Budget Committee staff

Caseload growth

A realistic allocation of funding for services must also account for the state’s increasing population and the growing demand for services. Colorado’s population is expected to grow by more than 80,000 in 2012, or 1.6 percent,ⁱ so it is reasonable to expect an increase in demand for state services, which is often called “caseload growth.” The demand for services increases during a recession as more people seek health care, higher education food stamps and other services. While it is reasonable to expect more people to seek state services as the population grows, it is nonetheless difficult to estimate an increased demand in services based only on population growth. But there are reliable estimates for certain services. Among the expected growing demand for services are:

- 11,000 new students in public schoolsⁱⁱ
- 9,000 new Medicaid patients, paid for through the general fundⁱⁱⁱ
- 5,800 new college students^{iv}

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In five core areas of the state budget — public schools, Medicaid, human services, the judicial system, and higher education — the increases in demand for the services is expected to cost \$290 million (Figure 5), according to estimates provided by the JBC staff.^v Add the cost of caseload growth to the insufficient revenue portion of the shortfall and the size of the budget hole grows to \$823.9 million.

Projected caseload growth

Figure 5

	Millions
Higher education	\$29.9
Education, kindergarten through 12 th grade	\$174.4
Medicaid	\$68.7
Judicial	\$7.3
Human services	\$10.2
Total	\$290.5

Source: Joint Budget Committee staff

A growing student population is expected to increase the cost of running the state’s public colleges and universities by \$29 million in 2011-12. Still, the caseload increase for higher education can be largely, or entirely, offset with tuition increases.

The recession is expected to continue driving more people to the Medicaid program as unemployment is expected to remain high. The caseload increase for Medicaid is difficult for the state to avoid, regardless of the degree of the revenue problem. Medicaid is a joint program between the federal and state governments. All states that participate must meet minimum requirements. Colorado’s Medicaid program is one of the most restrictive in the country, with the state providing minimum benefits and tight eligibility requirements. Without being able to significantly reduce the number of people who get health care through Medicaid, or realistically limit the size of the benefits, the state has few options. However, the state has trimmed rates paid to medical providers by 5 percent during the past two years. If the state continues slashing provider rates, those cuts could cause some doctors to stop accepting Medicaid patients, which would make access to quality health care harder for many low-income Coloradans.

Public schools account for the biggest portion of the projected caseload growth. The student population is growing at a slightly slower rate (1.3 percent) than the state’s population as a whole is expected to increase (1.6 percent). Still, if lawmakers continue to honor the current funding formula for schools, the state share of funding public schools is projected to increase \$174.4 million. Because it is the largest portion of the budget, it is a likely place for lawmakers to turn for savings when the budget needs cutting, but public sentiment and voter approved constitutional requirements for increases in funding make it difficult for policymakers to cut funding for kindergarten through 12th grade education.

The bright spot in caseload projections could be the Department of Corrections (DOC). JBC had projected DOC would need an extra \$37.3 million to meet a growing prison population. But a newer JBC estimate was developed in November accounting for two factors that changed so dramatically that this

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analysis does not include any estimation for caseload changes in prisons. First, the Department of Corrections issued projections in December with a trend reversal that now suggests the prison population will shrink slowly. Then, several months later, the Colorado General Assembly approved a measure designed to reduce the number of parolees who return to prison, which should further reduce the prison population.

Restoring transfers

The budget balancing techniques used the past three years have relied heavily on shuffling money throughout the budget from services that have dedicated sources of revenue to the general fund. Another tool has been deferring commitments, hoping that revenue collections recover. At least \$130.2 million of such decisions will come due in 2011-12, including:

- **Amendment 35 Tobacco Tax.** In 2010-11, the state will divert \$25.7 million from a special tobacco tax fund that typically pays for health care prevention programs to offset the budget shortfall. Diverting that money again would again require approval from two-thirds of the General Assembly
- **Hospital Provider Fee Fund.** The state transferred \$46.3 million from a new hospital fee to help cover other budget costs. The money in this fund is restricted by law to providing health care to specific groups and will likely be considered off-limits for future transfers.
- **Temporary Assistance to Needy Families (TANF).** The state transferred \$12.5 million from TANF, which is typically used to fund Colorado Works, to pay for some services in the Division of Child Welfare. The TANF long-term reserve is projected to run a deficit by 2012-13.
- **Fire and Police Pension Association (FPPA).** The state has a decades-old agreement to keep solvent a pension fund for firefighters and police officers. The state has delayed annual payments to the fund in the past three years. However the next scheduled payment from the state to the “old hires” fund of the FPPA for police and firefighters hired before 1978 is \$25.3 million in 2011-12.
- **Public Employees’ Retirement Association (PERA).** In 2010-11, state employees were forced to take a 2.5 percent pay cut and the state used the savings to offset the state’s contribution to PERA. Budget writers will need to find \$20.4 million in the budget in order to ensure that this is one-year pay cut for workers.

Concerns

It is important to note the amount of state revenue depends on a wide variety of variables, most important of which, is the economy. If the economy improves, not only would sales and income tax revenues increase, but the demand for some services, such as Medicaid, might decrease and the budget gap would likely shrink. By the same token, if the economy falters, revenue would likely decline and the demand for services would grow, digging the budget hole even deeper.

The LCS economic forecast shows revenue should rebound significantly in the next year. Total revenue for the General Fund is expected to grow 10.8 percent

Barring an unexpected economic turnaround, lawmakers will have to cut the state budget for a fourth consecutive fiscal year in 2011-12. It is clear that the state lacks the revenue needed to meet the demand for services that Colorado families depend on.

in the 2010-11 budget, yet still fall slightly short of the total collected in 2007-08. Income tax collections are expected to increase 9.7 percent. Sales tax collections are projected to grow 14 percent. The increased tax collections are projected to generate \$7.1 billion for the General Fund in 2010-11, which would still be 2 percent less than the \$7.3 billion collected in 2007-08.

A second significant concern is Congress' failure to so far approve an extension of the enhanced Federal Medical Assistance Percentages (FMAP) rate. If Congress fails to approve that extension, it would create a budget shortfall, including an anticipated revenue shortfall for the current year (fiscal year 2010-11), of \$212 million, according to estimates by OSPB, the executive branch agency that will submit a budget-balancing plan in August.

A third factor could also significantly change the outlook for 2011-12. If voters approve one or all of three anti-government measures on the ballot this November — Amendment 60, Amendment 61, and Proposition 101 — the budget gap would widen, the degree to which depends on which ones and how many of them pass. Passage of all three would devastate public services and require dramatic budget cuts regardless of how the economy fares.

Solution rests with voters

The state has survived three fiscal years of dramatic budget cuts but is still facing an alarming revenue problem. Barring an unexpected economic turnaround, lawmakers will have to dramatically cut the state budget for a fourth consecutive fiscal year in 2011-12. It is clear the state lacks the revenue needed to meet the demand for services Colorado families depend on.

Projected revenue is nearly \$1 billion lower than what the state would need to meet its obligations that year. Policymakers have an obligation to inform their communities about the state's revenue shortfall and the price that will be paid for failing to address the state's current and systemic revenue problems. Because of constitutional restrictions placed on elected officials, a sound solution can only come from the voters.

ⁱ http://www.dola.state.co.us/demog/pop_colo_forecasts.html

ⁱⁱ JBC ED briefing, Dec. 3, 2009,

ⁱⁱⁱ JBC HCPF budget briefing, Dec. 8, 2009, appendix D

^{iv} Projection developed using the Compound Average Annual Growth Rate identified in Colorado Legislative Council memo "Forecast for Higher Education Enrollment and Revenue," February 23, 2010

^v JBC General Fund Overview, April 12, 2010, http://www.state.co.us/gov_dir/leg_dir/jbc/gfo04-12-10.pdf