

Briefing Paper



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What Does it Take to Balance the Budget?

A Look at Colorado's Budget Actions from 2001 to 2007

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Executive Summary

In 1992, the voters of Colorado passed the Taxpayer's Bill of Rights (TABOR) due to concerns that state spending was increasing at an alarming rate. This constitutional amendment did two critical things:

1. It mandated that any tax increases had to be approved by voters, not just the legislature.
2. It created a formula to limit year-over-year spending increases. The formula is based primarily on the prior year's revenue collections or allowable revenue collections, whichever was lower.

After the economic downturn in 2001-03, TABOR's spending formula resulted in widespread state budget cuts. These cuts, particularly in infrastructure, were deemed too severe by the voters and resulted in the passage of Referendum C (Ref C). Ref C provided a five year time out from the TABOR limitations and reset the budget baseline for future TABOR restrictions. This Briefing Paper provides a detailed overview of the programs that were cut after the recession and programs that received increased funding after Ref C.

In general, Ref C prevented further drastic cuts to state programs and services. However, Ref C does not provide "new" revenue. In the coming years, maintaining current levels of state funding for programs and services will require a substantial inflow of new revenue.

Introduction

From 2001 to 2003, Colorado experienced an economic downturn that resulted in reduced state revenues for the fiscal years 2001-02 and 2002-03. Because the state constitution requires that the budget be balanced each year, lower revenues led to spending reductions and cuts to state services. In subsequent years, due to restrictions imposed by the Taxpayer's Bill of Rights (TABOR), spending limits continued despite an economic recovery in the state. "Excess" revenues (above the TABOR limits) were rebated to taxpayers.

Balancing the budget in fiscal years 2001-02 through 2004-05 was accomplished primarily through changes to General Fund allocations. The General Fund consists of revenues collected from taxes, such as the state sales and income taxes, and is used primarily to pay for programs that provide direct services to state residents. In the 2006-07 fiscal year, for example, about 94 cents of every General Fund dollar went to K-12 Education, Higher Education, Health Care, Human Services, Corrections, and the Judicial Branch. Other sources of state funding are directed to specific programs, and legislators have much less leeway in how they are spent. These other sources include Federal Funds (from the Federal Government), Cash Funds (from program-specific taxes and fees), and Cash Funds Exempt (from inter-departmental transfers and litigation settlements).

The state's purse strings were loosened somewhat with the passage of Referendum C (Ref C) in 2005. This measure gave legislators a "timeout" from TABOR limits in fiscal years 2005-06 through 2009-10, and set a new, higher revenue limit for 2010 and beyond. The additional funds retained under Ref C were categorized as "General Funds Exempt," and were to be spent on K-12 and Higher Education, Health Care, fire and police pensions, and Transportation. By allowing the state to keep revenues that it would have otherwise returned to taxpayers, Ref C provided substantial funding for its target programs. In turn, this freed up General Fund money that was then allocated to preserve other programs. Had Ref C not passed, balancing the state budget would have required substantial cuts to existing programs and services.

This report provides an overview of programs and services that were affected by General Fund budget cuts from fiscal years 2001-02 through 2004-05. It also highlights programs and services that received General Funds and General Funds Exempt in fiscal years 2006-07 and 2007-08 after Ref C preserved additional revenues.

What was Initially Cut, and What was Later Funded?

Altogether, approximately \$974 million dollars' worth of budget actions were taken between fiscal years 2001-02 and 2004-05. "Actions" include reducing or avoiding General Fund expenditures by cutting services as well as shifting revenues from other sources. Some of the budget actions resulted in program cuts, whereas others preserved General Fund programs by paying for them with other funding sources.

Detailed below are the 20 state departments that receive money from the General Fund and the General Fund Exempt, and the amount that each department's budget was reduced between 2001-02 and 2004-05. Programs that were cut or restricted are listed by department, as are programs that received General Fund and General Fund exempt monies after Ref C passed. The program lists are *not* comprehensive; they are intended to indicate the types of services that were affected.

Department of Agriculture (Value of Actions: \$-6.4M)

FY01-02 to FY04-05. Programs were reduced in Agricultural Services, Agricultural Markets, and the Conservation Board. Funding for Noxious Weed Management was eliminated.

FY06-07 to FY07-08. Funding was provided for local soil and water conservation projects and to lease purchase lab equipment for the Division of Agricultural Services.

Department of Corrections (Value of Actions: \$-47.0M)

FY01-02 to FY04-05. Programs were reduced in Prisons, Management, Inmate Programs, Administration, and Community Services.

FY06-07 to FY07-08. Funding was provided to accommodate caseload growth. This included expanding facilities, adding community and parole officers, and adding housing and security staff. Funding also covered increases in personnel costs and an increase in provider reimbursement rates.

Department of Education (K-12; Value of Actions: \$-284.3M)

FY01-02 to FY04-05. Support was reduced for longitudinal analysis of CSAP data, the Teacher Development Grant Program, the Colorado School Awards Program, the School Breakfast Program, various library programs, and capital construction. The full-day kindergarten pilot program, the Teacher Pay Incentive Program, and the Summer School Grant Program were eliminated.

FY06-07 to FY07-08. Funds were allocated for capital construction and the expansion of early literacy development programs for deaf and blind children. In addition, funding to library programs was partially restored.

Governor – Lieutenant Governor – State Planning and Budgeting (Value of Actions: \$-2.3M)

FY01-02 to FY04-05. Support was reduced for the Colorado First Customized Job Training Program and the Office of Innovation and Technology.

FY06-07 to FY07-08. General Funds to this department were reduced.

Department of Health Care Policy and Financing (Value of Actions: \$-100.5M)

FY01-02 to FY04-05. Support was reduced for the Colorado Indigent Care Program. Medicaid reimbursements to providers were reduced for pharmacy costs, Intermediate Care Facilities, Home and Community Based Services & Long-term Care, and Hospital Inpatient stays.

FY06-07 to FY07-08. Funding was provided to maintain or increase service levels in Medicaid mental and behavioral health programs, cover caseload and medical cost increases for Medicaid medical programs, and increase services for developmentally disabled adults who qualify for Medicaid programs. Reimbursement rates were raised for various Medicaid providers and for safety net provider hospitals.

Department of Higher Education (Value of Actions: \$-177.4M)

FY01-02 to FY04-05. Support was reduced for Governing Boards, Junior Colleges, need-based and merit-based financial aid, Area Vocational Schools, and grants for the arts.

FY06-07 to FY07-08. Funding was increased for student stipends and financial aid programs, Governing Boards, Junior Colleges, and Area Vocational Schools,

Department of Human Services (Value of Actions: \$-117.4M)

FY01-02 to FY04-05. Funding was reduced for administration and training, food distribution programs, the Domestic Abuse Program, services to developmentally disabled adults and their families, vocational rehabilitation programs, and the Aid to Needy Disabled program. Funding was eliminated for the Emergency Assistance for Legal Immigrants program. Numerous mental health and substance abuse programs were eliminated, including Mental Health Early Intervention Program, Mental Health Pilot for Detained Youth, and the Early Childhood mental health program. Reimbursement rates to Medicaid mental health providers were reduced as well.

FY06-07 to FY07-08. Funding was partially restored for mental health programs for children and the indigent, services for developmentally disabled adults, substance abuse treatment services, and alternatives to incarceration. Funding was also provided for new services within Youth Corrections, mental health crisis and stabilization services, mental health institutes, and increases in child welfare caseloads. Various providers were given cost of living increases and higher reimbursement rates. Salaries and benefits within the department also increased.

Judicial Branch (Value of Actions: \$-17.8M)

FY01-02 to FY04-05. All employees except judges were furloughed for 8 days, and no funding was allocated for new district judgeships or for County Courthouse furnishings. Funding was reduced for personnel, programs, and information technology hardware.

FY06-07 to FY07-08. Funding was primarily allocated to cover increased personnel costs, including funding for new judgeships, additional Trial Courts staff, probation officers, supervisors, and secretaries, additional personnel to address caseload growth in the Public Defender's Office, and increased salaries and benefits. Funding increases also covered higher case costs in the Alternate Defense Counsel program and higher caseloads in the Office of the Child's Representative. Additional program funds were allocated to community-based treatment services for probationers,

Department of Law (Attorney General; Value of Actions: \$-2.7M)

FY01-02 to FY04-05. Programs were reduced in the Criminal Justice & Appellate division and the Water & Natural Resources division. Funding for the Litigation Management Fund was eliminated.

FY06-07 to FY07-08. Funding was increased to cover preparation costs for upcoming litigation.

Legislative Branch (Value of Actions: \$-7.6M)

FY01-02 to FY04-05. Vacant positions were held open and some salaries were frozen. Funding for special sessions was eliminated.

FY06-07 to FY07-08. Funding was increased for personnel-related expenses.

Department of Local Affairs (Value of Actions: \$-8.0M)

FY01-02 to FY04-05. Funding was reduced for affordable housing grants and loans and for Colorado Heritage Communities.

FY06-07 to FY07-08. Funding was increased for affordable housing construction grants and loans.

Department of Military and Veterans Affairs (Value of Actions: \$-0.4M)

FY01-02 to FY04-05. Funding was reduced for tuition assistance, and staffing was reduced in the Veterans Service Office.

FY06-07 to FY07-08. Funding was increased to address the armory maintenance backlog,

Department of Natural Resources (Value of Actions: \$-11.6M)

FY01-02 to FY04-05. Subsidies for the well permitting program were eliminated.

FY06-07 to FY07-08. Funding was increased to cover workload increases, additional staff and operating expenses for the state parks, additional benefits for staff, and additional water commissioners and hydrographers.

Department of Personnel and Administration (Value of Actions: \$-6.3M)

FY01-02 to FY04-05. Base reductions were made in Human Resources, Finance and Procurement, and Information Technology.

FY06-07 to FY07-08. Funding was increased for salaries and benefits and to cover debt collection costs for fees owed to the state.

Department of Public Health and Environment (Value of Actions: \$-18.2M)

FY01-02 to FY04-05. Funding for Local Health Departments and the Youth Services Program was eliminated.

FY06-07 to FY07-08. Funding was partially restored for local health departments. Funds were also increased for the Water Quality Control Division, immunization programs, school-based health centers, Health Facilities licensure, and the Colorado Student Before and After School Project.

Department of Public Safety (Value of Actions: \$-9.8M)

FY01-02 to FY04-05. Funding was reduced for transition community beds, day reporting and ¾ house programs, and diversion residential community corrections beds. The juvenile diversion program was eliminated. Staff was reduced in the Colorado State Patrol and the Colorado Bureau of Investigation.

FY06-07 to FY07-08. Partial funding was restored to the juvenile diversion program. Funding was also allocated for facility construction, to address human trafficking, to expand mental health programs for inmates transitioning out of prison, to expand community corrections diversion programs, and to research impacts. Personnel were added in community corrections and the Colorado Bureau of Investigation, and salaries and benefits were increased.

Department of Regulatory Agencies (Value of Actions: \$-1.8M)

FY01-02 to FY04-05. Programs were reduced in the Division of Insurance and the Civil Rights Division. The Workers' Compensation Study was eliminated.

FY06-07 to FY07-08. Salary and benefits were increased, and funding was allocated to the Civil Rights Division to offset federal funds reductions.

Department of Revenue (Value of Actions: \$-22.9M)

FY01-02 to FY04-05. Programs were reduced in the Taxation Business Group, Information Technology, the Hearings Division, and the Motor Vehicles Business Group.

FY06-07 to FY07-08. Funding prevented cuts in programs that aid the elderly and in staffing levels for Driver and Vehicle Services,

Department of State (Value of Actions: \$-1.2M)

FY01-02 to FY04-05. Funding was reduced to County Clerks and Recorders.

FY06-07 to FY07-08. This department did not receive any General Funds.

Department of the Treasury (Value of Actions: \$-85.2M)

FY01-02 to FY04-05. The Senior Citizen Property Tax Exemption was eliminated, and payments for the Fire and Police Pension Plan were postponed for two years.

FY06-07 to FY07-08. Funding was allocated to unfunded pension liabilities and to prevent cuts after resumption of the Senior Citizen Property Tax Exemption.

Statewide Policy (All Departments; Value of Actions: \$-45.4M)

FY01-02 to FY04-05. Salary increases for state employees were eliminated.

Conclusions

As the above listing of departments and programs makes clear, a wide variety of state services have been affected by the fall and rise of state spending limits in the past seven years. In overall terms, Ref C monies halted the pattern of drastic program cuts that had become common in the years after the recession. However, Ref C did not add sufficient *additional* revenues to fully fund state services in light of continued population and caseload growth. Full restoration of state funding for programs and services to pre-recession levels would require substantial additional revenues. Given quickly rising caseloads (e.g., in the criminal justice system) and program costs (e.g., for Medicaid), current service levels cannot be maintained even with the flexibility granted by Ref C. In the near future, voters will have to either approve a new tax increase or accept substantial cuts to programs such as K-12 education and health care that are largely state funded.

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