Governor's 2013-14 budget proposal begins restoring cuts, but some major questions remain

ISSUE BRIEF
Nov. 2, 2012

Terry Scanlon
Fiscal policy analyst
789 Sherman St.
Suite 300
Denver, CO 80203
www.cclponline.org
303-573-5669 ext. 303
earenales@cclponline.org

Omitted from the budget proposal are two issues that are certain to become part of the process as the General Assembly considers amendments: scheduled federal budget cuts and the expansion of Medicaid.

Governor John Hickenlooper's proposal for the state budget would begin restoring some of the cuts from recent years that have harmed state services. But his spending plan for the year that begins July 1 does not address a couple of major issues that will certainly face lawmakers as they begin deliberating over the 2013-14 budget later this month.

The 2013-14 budget proposed by Hickenlooper would total $20.3 billion (that excludes the money counted twice in the category known as reappropriated funds) and would be a little more than $1 billion, or 5.4 percent, larger than the current budget.

The greatest source of that growth in spending is expected to come from the federal government. Federal spending accounts for roughly a quarter of the state budget. That portion would grow by eight percent, while the portion funded by state tax revenue, the General Fund, would grow by just five percent.

But major changes to the budget are still possible, if not likely. Omitted from the budget proposal are two issues that are certain to become part of the mix as the General Assembly considers amendments: scheduled federal budget cuts and the expansion of Medicaid. In addition, Congress could enact some form of federal tax reform that could directly affect state revenue, perhaps in a positive way.

First glance highlights
The governor's budget proposal is lengthy and will take two months for the Joint Budget Committee to review. Here are some of the most significant items identified so far:

- An additional $6.8 million, of which $2 million would come from the General Fund, to help counties serve people seeking assistance through the food stamps program
- An additional $2 million to the Older Coloradans Act to help provide healthy meals, rides and other basic assistance to frail seniors.
- Rates for "community providers," as well as county departments of human services, would increase 1.5 percent. That would cost $56.5 million, of which $25.8 million would come from the General Fund.
- Various economic development programs would see an increase of $6.6 million to help market the state and "spur the recruitment of 1,230 new jobs."

- Two computer systems that are critical for delivering public benefits would get upgrades. $2.4 million would go to the Colorado Benefit Management System, and $15.6 million would be spent on the Medicaid Management Information System.
- The Department of Human Services and the Department of Higher Education would both receive roughly 6 percent increases in General Fund assistance.
- The Department of Health Care Policy and Financing would receive a $174.4 million, or 9.4 percent, increase in General Fund support. Federal funding for HCPF would increase $311.9 million, or 11 percent.
- K-12 spending would increase $201.6 million. The governor's proposal increases per-pupil spending by $185. The per-pupil figure is still $418 lower than the pre-recession peak.
- The Senior Property Tax Homestead Exemption returns. Suspending this non-means tested tax break saved an estimated $94 million last year.
- The General Fund Reserve, which serves as the state's rainy day fund, would expand from four percent to five percent of General Fund. At the end of 2013-14, the state would have more than $800 million unspent in the General Fund Reserve and the State Education Fund.

Questions still remain

Significant changes could come to the governor's budget proposal in the next six months. Cuts in federal aid, an expansion of health care for the poor through Medicaid and potential federal tax reform could all have major impacts on the state budget.

Federal budget cuts are scheduled to begin in January through a process known as sequestration. Sequestration is a schedule of cuts to both military and some domestic spending that was designed by Congress to force lawmakers to reach a deal on the debt ceiling, spending cuts and the expiration of the Bush tax cuts.

Sequestration is expected to cost the state about $60 million in 2013, which means that by the end of the 2013-14 budget the state could experience a $90 million reduction in federal aid. Barring action by Congress and the president, those cuts will occur, although the details of how those cuts would be enacted are still being developed.

Also at the beginning of January, a series of tax cuts are scheduled to expire. That includes the Bush tax cuts and the federal estate tax, which is linked to Colorado's estate tax.

Many lawmakers have serious concerns about either the potential tax increases or the potential spending cuts. Lawmakers in both parties have expressed hope that a grand compromise can be reached to address both issues after the election.

On some issues there appears to be broad bipartisan agreement. First, there is significant consensus about reforms to the federal estate tax that would likely ensure that Colorado would not collect any revenue from the Colorado estate tax. If that happens that would put a hole in the governor's budget proposal, which currently anticipates spending $94 million in estate tax revenue.

Second, lawmakers in both parties agree that federal spending needs to be cut. Sequestration calls for broad eight percent cuts. If there is no grand bargain, then those eight percent cuts will be enacted. If a new deal is reached, then it would likely still include budget cuts, which may be even deeper cuts.

An effort to reform the federal tax code could pose some good news to the state budget as well. If Congress eliminates deductions, or places a cap on deductions, then that would increase the amount of income that is taxed at the state level and therefore increase revenue projections for the upcoming budget year.

Finally, Medicaid expansion remains a serious issue. The U.S. Supreme Court ruling raises questions about how states will move forward with Medicaid expansion. The Affordable Care Act calls for states to expand coverage to include all non-elderly whose income is up to 133 percent of the Federal Poverty Level. For the first three years the federal government would cover the full cost of care for the new group. The federal share would ratchet down to 90 percent by 2022.

Next stages

In the next two months, the Joint Budget Committee (JBC) will thoroughly review the governor's proposal in a lengthy series of public meetings. A few important dates on the calendar are:

- Nov. 14, the governor presents his budget to JBC
- Nov. 28, JBC is scheduled to discuss sequestration
- Dec. 12, JBC is scheduled discuss K-12
- Dec. 19, JBC is scheduled discuss Medicaid
- And on Dec. 20, and again in March, state economists revise their forecasts for revenue – estimates that determine the size of the budget.