



Long Bill prevents more cuts to schools; magnifies shortfall to the rest of Colorado's 2012-13 budget

ISSUE BRIEF April 6, 2012

Terry Scanlon
Fiscal Policy Analyst
789 Sherman St.
Suite 300
Denver, CO 80203
www.cclponline.org
303-573-5669 ext. 311
tscanlon@cclponline.org

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.

The state's budget-balancing tactics of the past few years, combined with stagnant revenue, have left the state more than \$1 billion shy of fulfilling the school-funding formula in 2012-13.

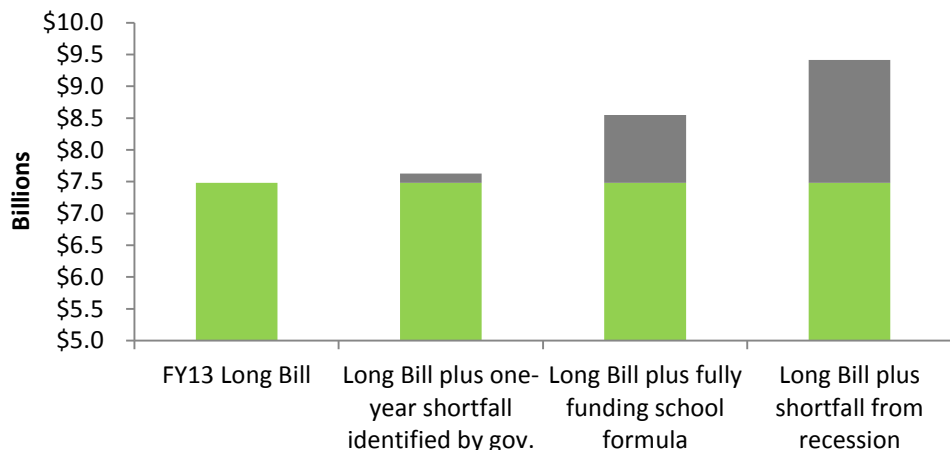
The Colorado House of Representatives begins debate this week on the 2012-13 state budget already approved by the General Assembly's budget-writing panel, the Joint Budget Committee. Known as the Long Bill, the 2012-13 budget spends more than the current budget and maintains funding for public schools at the current level. That has prompted some lawmakers to claim that the budget avoids cuts to schools or even restores cuts to schools. Those suggestions gloss over cumulative losses incurred during the recession. The proposed 2012-13 budget not only fails to maintain the current level of services provided by state government, but it also fails to begin closing the gap on four years of budget cuts. Even though legislators appear likely to keep per-pupil spending at the same level it was last year, the biggest cumulative shortfall is in education. The state's budget-balancing tactics of the past few years, combined with stagnant revenue, have left Colorado more than \$1 billion shy of the amount that should be going to K-12 education in 2012-13 if there were full compliance with the statutorily-established school-funding formula.

Shortfall

Calculating the size of the budget shortfall can be tricky. But as Table 1 shows, by any measure, the state is certainly not going to maintain the 2011-12 level of services in all areas of government in 2012-13, let alone cover the gap in spending created during the recession.

Table 1

Measures of budget shortfall



When services cannot be maintained, that constitutes a cut. And the difference between what is actually spent and what would need to be spent to maintain current services is the shortfall.

On November 1, when Gov. John Hickenlooper submitted his 2012-13 budget proposal to the JBC, he said General Fund revenue was anticipated to be \$679 million below the level needed to continue the functions of state government without reducing the level of services. The expectations for state tax revenue have improved significantly since then. Still, the budget being considered by the General Assembly represents a \$147.8 million shortfall, as shown in the second bar of Table 1, “Long Bill plus one-year shortfall identified by gov.”

Even that number does not tell the whole story. First, in 2012-13, General Fund revenue will be below the pre-recession peak for the fifth consecutive year. Second, that does not take into account the state’s growing population and the growing demand for state services. For example, since 2008-09, the state’s K-12 population has grown five percent and the Medicaid caseload has grown more than 54 percent. If the state had maintained the level of services that were provided before the recession began for all Coloradans newly requiring those services, Colorado would need to spend an additional \$1.9 billion this year, as shown in the fourth bar of Table 1, “Long Bill plus shortfall from recession.” This failure to maintain the current level of services represents a sort of hidden budget cut because in many state agencies, funding has either remained level or increased, but not enough to keep pace with inflation and caseload growth.

The third bar in Table 1 is simpler. It does not calculate the lost investments through the state’s failure to account for inflation, population growth or increased demands for services in all aspects of state government. Instead, the third bar, “Long Bill plus fully funding school formula,” measures the shortfall — \$1.06 billion — between the Long Bill and the amount that the Long Bill would spend if the state had not altered the school funding formula.

Budget summary

The 2012-13 budget proposal, as shown in Table 2, totals more than \$18.9 million, a 3.7 percent increase in overall spending from the current year. The budget relies on a 6.5 percent increase in spending from General Fund revenue, which is made up mostly of income and sales taxes.

Table 2

Revenue sources for state budget (in billions)

	2011-12	2012-13	change
General Fund	\$7.0	\$7.5	6.54%
Cash Funds	\$6.1	\$6.2	1.23%
Federal Funds	\$5.1	\$5.2	2.75%
Total	\$18.2	\$18.9	3.70%

In 2012-13, General Fund revenue will be below the pre-recession peak for the fifth consecutive year.

Table 2 omits a category of spending known as Reappropriated Funds, which is found in most official budget documents. Reappropriated Funds are not a good measure of spending because the category represents money that has been counted as an appropriation in one department and then sent to another department where it is actually spent on services. So in order to avoid double counting some spending, Reappropriated Funds are not included in this analysis. The bulk of this analysis focuses on General Fund spending because it is the portion of the state budget with which lawmakers have the most flexibility as they work to meet the constitutional mandate of a balanced budget. Following are highlights of key areas of spending in the 2012-13 Long Bill approved by the JBC.

In 2012-13, Colorado would be a little more than \$1 billion below the level of funding needed to comply with the state's school-funding formula. If we were honoring that formula we would spend \$1,307 more per student in 2012-13.

K-12 education

As mentioned above, per-pupil funding for public schools in 2012-13 will remain at the 2011-12 level of \$6,474 per student. Still, the 2012-13 mark is \$603 per pupil below the 2009-10 level. And even worse, in 2012-13, Colorado would be a little more than \$1 billion below the level of funding needed to comply with the state's school-funding formula. If we were honoring that formula we would spend \$1,307 more per student in 2012-13.

Higher Education

Funding for Colorado's public colleges and universities would decline again in the JBC-approved plan. The cuts endorsed by the JBC are less severe than the spending cuts first proposed by the governor. Nonetheless, given the restrictions that protect other programs from cuts, higher education is facing reductions, in part, because it continues to be a part of the state budget that provides lawmakers with some flexibility. In 2012-13, the JBC proposal would reduce funding by \$5.8 million for the program that provides tuition support for undergraduates, the College Opportunity Fund.

Medicaid

Since the beginning of the recession the Medicaid program has grown significantly, which is exactly what it is designed to do. The state and federal partnership that provides health care to low-income children, seniors and the disabled is expected to increase another 10.2 percent, or nearly 64,000 people, in 2012-13. Nearly half of those new clients are expected to be children. Meanwhile, Colorado's budget for Medicaid will grow 9.6 percent. Part of the growth in Medicaid in recent years has come from the state expanding eligibility so that more people can receive quality health care. The cost of health care for those new clients has been paid for by the Hospital Provider Fee, a mechanism that allows the state to receive more federal funds, and has had no impact on the General Fund.

In terms of the cost per client, the state's spending would decline for the second straight year under the JBC budget proposal. Per client spending would drop nearly 2 percent when measured over those two years. Children's care would decline more than 6 percent, while the cost of care for seniors and the disabled would increase. State officials are taking several approaches to contain cost. The Accountable Care Collaborative was launched last year. (Click [here](#) for more information on ACCs.) And two more cost-containment measures are in

the works at the Legislature. One idea, gainsharing, would let providers keep a portion of the savings when the cost of care is lower than expected. The other proposal would allow Regional Care Collaborative Organizations to create innovative payment reform pilot projects.

TANF

The Temporary Assistance to Needy Families (TANF) program has been slashed in recent years and the trend would only be exacerbated under the JBC-approved budget for 2012-13. Even as the federal government reduces aid for TANF, for the first time Colorado would put no state funds into the program under the budget approved by the JBC.

The biggest change for TANF came when the federal government last year decided to stop providing some states, including Colorado, an extra TANF payment each year. For Colorado, that equaled the loss of \$13.6 million. The state uses most of its TANF money, which is now at about \$136 million a year, to pay for the Colorado Works program. That program provides cash assistance to families on a temporary basis.

The number of people receiving cash assistance increased 19 percent between 2009 and 2011. Meanwhile, since 2009-10, funding for the program will have dropped by a little more than \$50 million, or 20.5 percent. In order to meet the growing demand for cash assistance with less money, the state and counties have been scaling back the use of TANF funds for child care assistance and child welfare.

In the past three years, the state provided a minor amount of General Fund money for TANF, and it decreased that contribution from \$72,000 to \$18,000. Next year the state would spend no General Fund revenue on the program.

LEAP

The Low-income Energy Assistance Program is a federal program that helps low-income Coloradans pay their heating bills during the winter months. This program, which is funded entirely by federal money, would be cut \$11.6 million, or 19.4 percent, in the 2012-13 budget. The \$48.1 million proposed in the 2012-13 budget is \$29.3 million, or 37.8 percent, lower than the level at which LEAP was funded three years earlier when the Recovery Act provided a short-term boost to help low-income families.

Child Care

The Long Bill would maintain total funding in the Child Care Assistance Program (CCAP) at the 2011-12 level. However, the state would turn to the federal government for a greater share of the cost of the \$74 million program as the state's contribution is cut by \$500,000 and the federal contribution is increased by the same amount.

As is true in many other parts of the budget, CCAP has experienced hidden cuts in recent years. Like many state services, child care assistance tends to be countercyclical, meaning that when the economy worsens, demand for child care assistance increases because the number of low-income families increases.

Even as the federal government reduces aid for TANF, Colorado would put no state funds into the program for the first time under the budget approved by the JBC.

Demand in child care is difficult to measure, but during the recession more Coloradans entered poverty and therefore it is likely that more families qualified for the CCAP program. However, due to an imbalance between the requests for child care assistance and the amount of funding, many counties in the state have lowered the income threshold for qualifying for the program in order to focus on serving the most needy while constraining the size of waiting lists. Between 2009 and 2011, 28 counties tightened eligibility standards for the program. Still, as of September, more than 1,300 families in 14 counties were on waiting lists to receive the benefits. Meanwhile, between FY 2009-10 and the proposed budget, total funding for the program would drop nearly 2.2 percent, including a \$1.75 million reduction in state funding.

Child Welfare

The agency charged with protecting Colorado's children would see a slight decline in funding under the JBC plan for 2012-13. The Division of Child Welfare, which investigates claims of abuse and neglect and also manages Colorado's foster care program, would be reduced from \$401.6 million to \$400.5 million. The cut in total spending for the division would occur even as General Fund supporting it increases. Less federal money will be available to support Child Welfare because the federal TANF funds that have been used to supplement state funding of Child Welfare are needed to support the increased demand for TANF cash benefits.

Child Welfare is another agency that has experienced hidden budget cuts. Between 2008 and 2011, the state's child population has grown by 3.7 percent, or more than 44,000 children, according to the U.S. Census Bureau. However, not only has the state failed to adjust spending in the division to account for the growing population and inflation, but it has actually cut total spending by nearly 1 percent, or \$3.8 million, between 2009-10 and 2012-13.

Corrections

The JBC budget calls for closing another prison this year. A year after closing Fort Lyon, the 2012-13 budget would decommission by Feb. 1, 2013 a facility known as CSP II in Canon City. The prison is part of a larger complex, the Centennial Correction Facility.

Closing CSP II is expected to save the state \$1.9 million in General Fund spending in 2012-13 and another \$7.8 million the following year, the first full year of savings. By the time the facility is closed, 213.6 positions are expected to have been eliminated, although state officials have said they hope to place those workers in other jobs.

CSP II is a highest-level security prison. It opened in 2010 because DOC officials said the increasing numbers of certain offenders — prisoners who were difficult to house because they were violent in prison — mandated the need for another facility in which they could be isolated. But the prison population has declined in recent years, and a recent analysis of the most violent prisoners found that the state had more capacity for housing them than the state needs.

Senior Homestead Exemption

Much of the budget debate this year has focused on the Senior Homestead Property Tax Exemption, which exempts 50 percent of the first \$200,000 of actual property value for people 65 and over who have owned their home for at least a decade. This tax break is not means-tested, meaning that it is available without regard to income. The Homestead Exemption had been suspended for several years as part of budget-balancing efforts and is scheduled to be reinstated in 2012-13 at cost of \$96.1 million. Gov. Hickenlooper and some lawmakers had considered suspending the senior tax break for another year in order to help mitigate budget cuts, but when the March report on state revenue found that tax revenue will grow more than previously expected, plans for continuing the suspension of the tax exemption vanished. The effect is to reduce available Long Bill spending by \$96.1 million.

CBMS

Before the session, Gov. Hickenlooper prioritized fixing the troubled Colorado Benefits Management System, or CBMS. CBMS was intended to streamline the application process for public benefits, such as Medicaid, food stamps and cash assistance. Gov. Hickenlooper proposed spending \$23.2 million in 2011-12 and 2012-13 on the CBMS fix. Of that total, \$13.7 million — \$5.7 million in 2011-12 and \$8 million in 2012-13 — would come from the General Fund. JBC members, aware of the long history of problems with the computer system, reluctantly agreed to the governor's request but the committee is also sponsoring legislation that would create a legislative panel that would be charged with oversight of the upgrades to the computer system.

State employees

The final sticking point in negotiations among JBC members is a line item that appears in the Long Bill for each department of state government, "personal services." Savings in personal services can be achieved through a combination of leaving vacant positions unfilled and hiring replacement workers at a lower pay rate than the departing workers. JBC decided to reduce personal services in most departments — exempting those with fewer than 20 employees and those that work all day and night — by 1 percent. As part of a compromise among JBC members, the personal services cuts will be balanced by the state's covering the \$15 million increase in health insurance premiums, rather than passing that along to workers, thereby avoiding a reduction in their take-home pay.