



COLORADO
Office of State Planning
& Budgeting

FY 2021-2022 Comeback Requests
for Executive Branch Agencies

March 15, 2021

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The Honorable Senator Dominick Moreno
Chair, Joint Budget Committee
Colorado General Assembly
200 E. 14th Avenue, Third Floor
Legislative Services Building
Denver, CO 80203

Dear Chair Moreno:

On behalf of Governor Jared Polis, the Office of State Planning and Budgeting (OSPB) submits this package of comebacks for FY 2021-22 requests.

While the revenue picture has changed since the Governor's budget situation, both in terms of state funds and new federal funds, the structural budget issues over the next several years remain just as challenging. This creates opportunities for one-time spending but does not alleviate the structural deficit forecast for the years ahead. Thus, the Governor continues to recommend only a modest increase to base operating budgets as well as carrying forward significant reserves to bridge the budget gap in the future.

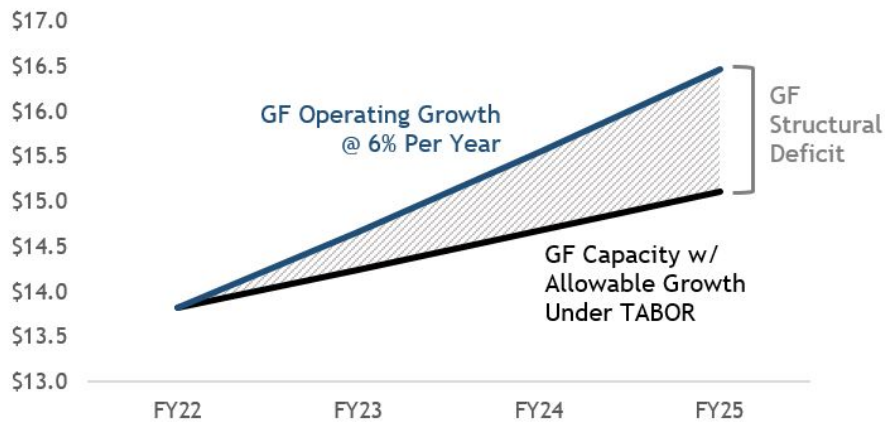
Thus OSPB comebacks respectfully request that the committee reconsider increases made in the following categories:

1. Budget for the operational savings that Departments have achieved
2. Maximize the use of federal funds

Examples in each category are included later in this letter. The Governor's November 2nd request recommended a 7.5% operating increase over FY 2019-20 levels (the most appropriate benchmark year given the large reductions in FY 2020-21). The Committee has voted on or deferred action on a further 2.3% to 2.7% operating increase (\$275M-325M see attachment), potentially bringing growth to 10% and adding \$550M-650M to the structural deficit for FY 2022-23 and beyond.

This pace of growth raises serious concerns about sustainability given the structural budget deficit forecast in future years due to the current recession, as well as the constriction on General Fund growth required by the constitutional provisions in TABOR and the statutory lowering of the Referendum C cap per SB17-267. As the chart shows below, even a modest 6% annual operating growth (the average over the last economic expansion FY 2010-11 to FY 2019-20) will outpace the growth of the Referendum C cap and require annual budget reductions in the hundreds of millions of dollars.

GF Structural Deficit \$ in Billions



Data Source: Illustrative Estimate Based on the OSPB [Long-Range Financial Plan](#)

Blue line represents total GF obligations starting with the Governor’s FY22 budget request and growing at 6% annually based on average operating growth over the last economic expansion FY 2010-11 to FY 2019-20. Black line represents General Fund capacity when restricted under the TABOR cap growth limits of population plus inflation (approximately 3% annually).

Examples of savings proposals in two categories:

(1) Book operational savings due to reimagining efficiencies and other changes

Department of Personnel & Administration Center for Organizational Effectiveness (COE) Program Financial Restructure

The requests includes a reduction of \$417,212 in total funds for the restructure of COE to ensure fundamental training needs for each department are met and customers are receiving training using a consistent approach, and will allow the COE to focus on development, maintenance, delivery, and tracking of statewide Equity, Diversity, and Inclusion (EDI) training and to develop and deliver required training for all employees, in addition to supporting progress towards positioning the State as an Employer of Choice.

Department of Military and Veterans Affairs Reimagined Efficiencies

The request includes General Fund savings of \$97,394 for the reorganization to streamline customer support, flatten department governance, and culturally refocus on customer service. The result of this action was the transition from two Division directors to one.

Department of Public Safety Improving Administrative Efficiency

This request includes General Fund savings of \$169,404 that result from operational efficiencies realized during the COVID-19 pandemic that can be continued in FY 2021-22 and ongoing (DPS R-08). Efficiencies span four divisions at the Department and include decreases

in travel, conference registration fees, equipment purchases, training expenses, and the removal of underutilized desk phones.

HCPF MMIS annualization

This request is a \$2.0M General Fund reduction to delay the annualization for modifications to its Medicaid Management Information System (MMIS). This delay will not stop HCPF from making progress on these modifications. HCPF has flexibility to use its existing appropriations to modify the MMIS during FY 2021-22 even with delaying the annualization; this represents a sensible approach to maximize existing funds while also generating budget savings.

(2) Maximize federal funds

Employment Opportunities with Wages

The Colorado Works Employment Opportunities with Wages program (also known as CW STEP) is designed to place low-income individuals with children who are eligible for TANF Basic Cash Assistance into subsidized work experience and training to gain hands-on work experience and marketable skills to help them move to self sufficiency. This program serves a population particularly vulnerable to downward shifts in the labor market. Evidence has shown that employers are more likely to provide employment opportunities to program participants despite those participants often having limited experience and/or lower skills. The Committee deferred action on a staff recommendation to reduce the Department's request from \$4 million in federal funds (supporting 576 Coloradans) to only \$2 million. We request the Committee maximize available federal funds and approve the full \$4 million (CDHS R-25).

Federal Fund Refinance for Child Care Programs

The Families First Coronavirus Response Act effectively reduced by 6.2 percentage points the amount of matching funds a state must contribute to claim its full federal matching allotment for the Child Care and Development Fund (CCDF). As a result, the Department of Human Services requested to refinance dollar-for-dollar General Fund with federal funds for the Infant-Toddler Quality and Availability and Early Childhood Mental Health programs (CDHS R-08). The Committee did not approve this request preventing the State from capturing savings from this change in federal policy. The Department requests the Committee reconsider this action and refinance the \$1.4 million General Fund with the same amount in federal Child Care and Development Fund (CCDF) dollars. There is no programmatic impact to these programs as a result of refinancing, but the action would result in \$1.4 million General Fund savings and is able to be sustained by the CCDF ongoing.

Child Welfare Provider Rate Implementation

Governor Polis and CDHS leadership are focused on strengthening the availability of in-home services for foster youth, and, when out-of-home placement is necessary, ensuring that a

child or youth is placed in a family-like setting (as opposed to group settings). At the same time, the federal government, through The Family First Prevention Services Act (Family First), has modified federal child welfare funding to support prevention services (keep foster children with their families) and move away from congregate care. The Department requests that the Committee reconsider the JBC Staff initiated \$11.7 million General Fund increase to child welfare provider rates. The proposed increases no longer reflect a placement continuum that is most responsive to the needs of children and youth. In addition, increased funding for provider types ineligible for federal Family First funding does not support the State's child welfare goals and is a missed opportunity for federal funds drawdown. The Department encourages the Committee to reconsider this proposed increase and ensure that if additional funds are provided they are structured to meet federal requirements to help providers transition to and increase capacity of Family First-eligible placements (as well as maximize federal Title IV-E earnings).

CDPHE Federal Funds for Public Health Infrastructure

New federal funds are available to support the request from the Department of Public Health and Environment to build the state's public health infrastructure (BA-02). The Department requested a \$31 million increase in FY 2021-22 to address identified gaps in State and local public health infrastructure, positioning the State for the projected ongoing COVID response and as well as the public health system's ability to scale in a future public health crisis. Given the receipt of significant new federal funds to support the State's COVID response, the Department reduces the General Fund request. The Department requests the Committee appropriate federal funds of \$5.5M to support COVID contact tracing plus \$4.5M for COVID related staff and other expenses in FY 2021-22. In addition, the Department has withdrawn the \$10M request to replace the Colorado Electronic Disease Reporting System (CEDRS) as that project is eligible to be funded with Federal funds (CC-IT).

Federal Stimulus

The passage of major federal stimulus packages have injected significant new resources into the state. For example, both H.R. 1319 the American Rescue Plan Act (ARPA, or Biden Stimulus package) and H.R. 133 (stimulus bill passed by Congress in December) include direct distributions into K-12, higher education, and health care sectors. The Governor encourages the Committee to consider federal stimulus resources as part of level setting and a holistic approach to ensuring appropriate funding and reserves for the state.

- K-12 public schools: \$467 million from H.R. 133 and \$1.1 billion forthcoming from ARPA
- Institutions of Higher Education: \$260 million from H.R. 133 and \$460 million forthcoming from ARPA
- Health care: \$150 million in direct federal aid from ARPA, targeting rural health care providers, plus at least \$40 billion nationwide remains to be distributed from the Provider Relief Fund authorized by the CARES Act and other federal action (more than \$1 billion received in Colorado to date)



Reserves

General Fund & State Education Fund Reserves

The Governor's budget request includes a record increase to reserves to address future operating deficits (\$1.652 billion for a total of 13.5 percent). The request also maintains a State Education Fund reserve of \$460 million in FY 2021-22 to cover the expected budget shortfall for education in FY 2022-23 and guard against an increase in the Budget Stabilization Factor. Both of these reserve requests are essential at these levels for addressing the projected budget gap.

State Emergency Reserve

OSPB does not recommend recapitalizing the State Emergency Reserve (SER) with General Fund, an option the Committee has under consideration. We anticipate receipt of sufficient federal funds and reimbursements for the public health response to repay amounts drawn from the reserve this fiscal year, and most if not all, of the requested General Fund for this purpose (\$206.8M to repay transfers from SER cash funds and \$75M as a contingency for COVID expenses) will not be needed. In addition, we support the Committee's interest in replacing the non-liquid assets in the reserve. We would like to work with the Committee to identify liquid assets that do not include General Fund for this purpose. The SER may not be tapped during recessions, and thus replacing the non-liquid assets with General Fund would lock those resources away until the next extreme (possibly 100-year) event in the State.

Thank you for your consideration of these comeback requests.

Sincerely,

Lauren Larson
Director

CC:

Representative Julie McCluskie, Joint Budget Committee Vice-Chair
Senator Chris Hansen, Joint Budget Committee
Representative Leslie Herod, Joint Budget Committee
Representative Kim Ransom, Joint Budget Committee
Senator Bob Rankin, Joint Budget Committee
Ms. Carolyn Kampman, Joint Budget Committee Staff Director

Estimated General Fund increases to Departments

Department	JBC Initiated Requests	JBC Denied/Partially Denied Request	JBC increased Governors Request	Department Total
DPA	\$0	\$0	\$8,510,194	\$8,510,194
CDA	\$0	\$0	\$0	\$0
DOC	\$1,249,419	\$0	\$429,460	\$1,678,879
CDE	\$4,606,357	\$1,137,477	\$500,357	\$6,244,191
GOV	\$0	\$4,196,000	\$0	\$4,196,000
CDPHE	\$0	\$0	\$99,079	\$99,079
DHE	\$1,154,973	\$218,825	\$4,371,500	\$5,745,298
CDOT	\$0	\$0	\$0	\$0
DHS	\$1,027,951	\$18,103,869	\$19,268,848	\$38,400,668
CDLE	\$122,657	\$401,947	\$0	\$524,604
DOLA	\$0	\$4,544,962	\$0	\$4,544,962
DMVA	\$565,910	\$0	\$0	\$565,910
DNR	\$0	\$125,000	\$0	\$125,000
DPS	\$1,460,734	\$0	\$20,348,401	\$21,809,135
DORA	\$0	\$0	\$0	\$0
DOR	\$0	\$0	\$0	\$0
HCPF	\$43,094,409	\$78,342,176	\$27,295,382	\$148,731,967
Capital	\$0	\$0	\$44,762,735	\$44,762,735
Total	\$53,282,410	\$107,070,256	\$80,823,221	\$241,175,887
<i>Other Increases under JBC consideration</i>				\$34M-84M
Total potential increases				\$275M-325M