


**COLORADO**

 Office of State Planning  
& Budgeting

 111 State Capitol  
Denver, Colorado 80203

January 17, 2017

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

Dear Senator Lambert:

With this letter, we submit our package of supplemental and budget amendment requests pursuant to § 2-3-208 (2) (a) and (3) (b) (1), C.R.S. These requests contain FY 2016-17 and FY 2017-18 caseload adjustments for: 1) the Division of Youth Corrections in the Department of Human Services, 2) the Department of Corrections, and 3) financing for K-12 schools in the Department of Education. We have also included several stand-alone amendments to the FY 2017-18 budget request.

The revised budget request addresses a significant reduction in the forecast for local property taxes for available K-12 education funding triggered by the provisions of Article X, Section 3 of the Colorado Constitution, the "Gallagher" amendment. The amendment requires that the total property tax burden in the State be shared more by non-residential owners than by residential owners. Because residential values have grown faster than non-residential values and the relative burdens are out of compliance with the Constitution, the mechanism to adjust the burden is to lower the residential assessment rate.

The December 20, 2016 Legislative Council economic forecast anticipates that the residential assessment rate will be reduced from 7.96 percent to 6.85 percent, resulting in a \$169.7 million reduction in local share revenue available for K-12 financing. However, newer information has become available from the Division of Property Taxation in the Department of Local Affairs that affects this projection.

On January 13, 2017, the Division of Property Taxation released its preliminary residential assessment rate study based on initial evaluations of actual property valuations from county assessors. This study indicates that both residential and non-residential property values increased at rates greater than the Legislative Council forecast. The Division projects that the residential assessment rate will drop even further than the Legislative Council projection, from 7.96 percent to 6.56 percent, or 17.6 percent. This lower rate is calculated on a substantially larger base, however. As a result, we now project that the lowering of the residential assessment rate will cause a reduction of \$135.1 million in local share for funding of K-12 schools.



When accounting for this reduction in the residential assessment rate, along with changes in K-12 enrollment and the forecasted rate of inflation, we estimate that our November 1, 2016 budget request will fall \$106.2 million short of maintaining the negative factor at \$876.1 million as requested in our November 1, 2016 submission. This equates to \$122.70 per student in the school finance formula.

We propose to close this gap in two ways. First, we request legislation to reduce the Senior Homestead Exemption by half in FY 2017-18 and direct the savings to the State's share of K-12 education financing. Colorado voters passed the Senior Homestead Exemption in 2000, but authorized the General Assembly to modify the exemption in the future. Since that time, the General Assembly has twice voted to reduce or eliminate the exemption in order to balance the budget. Our proposal would allow qualifying Colorado seniors to claim a tax exemption on the first \$100,000 in value on their homes, rather than the first \$200,000 of value as provided by current law. This reduces the General Fund expenditure on the program by \$68.1 million.

Second, we request legislation to increase the special sales tax on adult-use recreational marijuana to 12.0 percent in FY 2017-18, with the proceeds earmarked for the State's share of K-12 education financing. In 2015, Colorado voters exempted retail sales tax collections from the calculation of fiscal year spending in Article X, Section 20 of the Constitution. The maximum allowed retail sales tax rate for adult-use recreational marijuana is 15 percent. Under current law, this special sales tax is scheduled to fall from 10.0 percent to 8.0 percent on July 1, 2017. By increasing the tax to 12.0 percent, we anticipate generating an additional \$41.9 million in revenues to support K-12 financing under this proposal. This calculation assumes that legislation would be crafted so that all revenues generated by this tax increase would be dedicated to K-12 financing, with no additional reserves or sharing of proceeds with local governments.

Without the increase in resources from these two legislative requests, the negative factor would increase to \$982.3 million. While these proposals can help us in the short term, we believe that structural reforms to the rules that control school finance are an imperative for the State and this work should begin during this legislative session. Members of OSPB and I are available to meet with you and any members of the General Assembly who are interested in addressing this issue.

In this package, we have also included supplementals and budget amendments that balance our FY 2017-18 budget request based on the December OSPB forecast and the aforementioned changes in K-12 local property tax revenue.

Our final FY 2016-17 request provides for a budget of \$27,704.9 million total funds (\$10,464.3 million General Fund). Our FY 2017-18 request provides for a budget of \$28,651.8 million total funds (\$10,892.9 million General Fund).

Notable items in our FY 2016-17 supplemental request include:

- **Corrections.** Includes a net increase of \$1,511,954 total funds (\$800,751 General Fund) associated with offender caseload and medical expenses. This includes an increase of \$3,530,499 total funds (\$2,819,296 General Fund) as a result of a higher projected offender population and two capital construction projects that require beds to be offline in order to be safely completed. The \$2,018,545 General Fund decrease for medical



caseload is due to Per Offender Per Month (POPM) cost changes and a decrease in pharmaceutical costs.

- **Human Services.** Includes a decrease of \$1,683,543 total funds (and a decrease of \$1,410,461 General Fund) related to declining caseloads in the Division of Youth Corrections.

Our revised budget request for FY 2017-18 contains budget amendments of \$46.6 million total funds and 5.3 FTE, including a net decrease of \$3.5 million General Fund compared to our January 3, 2017 budget request. Other highlights include:

- **Corrections.** Includes an increase of \$11,330,059 total funds (\$9,823,951 General Fund) associated with salary adjustments for Correctional Officer I and Community Parole Officer positions, offender caseload, medical expenses, and statewide common policies. The largest portion of this is an increase of \$5,646,419 total funds (\$4,146,419 General Fund) resulting from a higher projected offender population. The salary adjustment is an increase of \$3,998,242 General Fund which will increase minimum pay for the positions, as well as increase salaries for personnel currently making under this new minimum amount. The \$667,439 General Fund increase for medical caseload is due to a higher projected offender population and Per Offender Per Month cost changes.
- **Education.** Includes an increase of \$100.2 million total funds (\$62.7 million General Fund) associated with changes to School Finance Formula based on updated information from our November 1, 2016 request. Specifically, the request includes a reduction to Total Program of \$34.8 million due to lower student counts. However, this reduction is offset by an increase of \$135.1 million in State Share to offset the reduction in local property tax collections based on lowering the Residential Assessment Ratio to 6.56 percent. The request maintains the negative factor at the \$876.1 million requested in November and maintains a \$93.1 million fund balance in the State Education Fund.
- **Governor's Office.** The Office of State Planning and Budgeting request includes an increase of \$2.0 million in Marijuana Tax Cash Funds to create an evidence-based policymaking evaluation and support program. The Office of Information Technology request includes a net increase of \$7,747,174 in reappropriated funds. This includes \$4,912,625 for ongoing hosting and maintenance of the Human Resources Information System, the costs for which are distributed throughout all departments in this budget package. In addition, this includes an increase of \$2,834,549 related to a request in the Department of Revenue discussed below.
- **Human Services.** Includes an increase of \$6,935,924 total funds (and a decrease of \$2,246,207 General Fund). A reduction of \$3,490,732 total funds (and reduction of \$3,027,845 General Fund) is related to declining caseloads in the Division of Youth Corrections. Two requests, associated with recommendations from the Mental Health Hold Task Force and the Colorado Commission on Criminal and Juvenile Justice, result in an increase of \$9,645,018 from the Marijuana Tax Cash Fund.
- **Revenue.** Includes an increase of \$1,997,800 total funds (\$1,870,530 General Fund). Of this amount, \$1,764,549 General Fund is related to ongoing hosting and maintenance of the GenTax system, representing a modification to the plan submitted as part of the November 1, 2016 budget request.



- **Treasury.** Includes a decrease of \$68.1 million General Fund associated with the Senior Property Tax Exemption by reducing the exemption from 50 percent of the first \$200,000 of a qualifying senior's home value to 50 percent of the first \$100,000 of the home value.

Finally, our revised FY 2017-18 package sets aside \$6.7 million General Fund for our legislative priorities in the 2017 session, and \$109,826 to account for TABOR refunds associated with cash fund revenue increases in the Division of Youth Corrections caseload request.

### *General Fund Overview for FY 2016-17 and FY 2017-18*

<b>OSPB Forecast</b>	<b>FY 2016-17 General Fund</b>	<b>FY 2017-18 General Fund</b>	<b>Change over FY 2016-17</b>	<b>FY 2017-18 % Change</b>
General Fund Available	10,995,381,280	11,562,374,926	566,993,646	5.2%
General Fund Expenditures	10,464,260,272	10,892,889,112	428,628,840	4.1%
Ending General Fund	531,121,008	669,485,814	138,364,805	26.1%
General Fund Reserve Requirement	635,381,597	669,485,814	34,104,216	5.4%
GF Above (Below) Reserve Level	(104,260,589)	(0)	104,260,589	N/A

Reflects final supplementals and budget amendments submitted on January 17, 2017.

### **Overview of FY 2016-17**

Our FY 2016-17 budget provides for a net decrease of \$356,534 total funds (decrease of \$703,779 net General Fund) relative to our January 3, 2017 budget package.

#### *FY 2016-17 General Fund Revenue Available (\$10,995.4 million)*

The FY 2016-17 total available General Fund is \$10,995.4 million. This figure is unchanged from our January 3, 2017 submission. Our FY 2016-17 General Fund available continues to be based on a beginning balance of \$513.5 million, General Fund revenues of \$10,404.2 million, and General Fund revenue adjustments of \$45.9 million as outlined in our December 2016 OSPB forecast, plus the \$31.7 million from the severance tax restriction to the General Fund which was previously noted in our November 1, 2016 budget letter.

#### *FY 2016-17 General Fund Expenditures (\$10,464.3 million)*

General Fund expenditures requested for FY 2016-17 total \$10,464.3 million. This sum includes \$9,775.1 million subject to the General Fund reserve requirement in Section 24-75-201.1, C.R.S. and \$689.2 million that is not subject to the General Fund reserve requirement. The only change from our January 3, 2017 budget request is a net decrease of \$703,779 General Fund which is subject to the reserve requirement.



*FY 2016-17 General Fund Ending Balance (\$531.1 million)*

The ending balance for FY 2016-17 represents the difference between the General Fund available of \$10,995.4 million and General Fund expenditures of \$10,464.3 million, for an ending balance of \$531.1 million, or 5.44 percent of the General Fund expenditures subject to the reserve limit. This ending balance is \$104.3 million short of the reserve requirement of \$635.4 million, which represents 6.5 percent of General Fund expenditures subject to the reserve requirement.

**FY 2016-17 General Fund Summary**

General Fund Available	\$10,995.4 million
General Fund Expenditures	<u>\$10,464.3 million</u>
Preliminary Ending Balance	\$ 531.1 million
Preliminary Ending Balance	\$ 531.1 million
General Fund 6.5% Reserve Calculation	<u>\$ 635.4 million</u> <1>
Amount ( <i>Below</i> ) Reserve Calculation	(\$ 104.3 million)

<1> Reserve is calculated based on appropriations subject to the General Fund reserve limit totaling \$9,775.1 million.

**Overview of FY 2017-18**

Our FY 2017-18 budget provides for an increase of \$46.6 million total funds (net decrease of \$3.5 million General Fund) and 5.3 FTE relative to our January 3, 2017 request for FY 2017-18.

*FY 2017-18 General Fund Revenue Available (\$11,562.4 million)*

The FY 2017-18 total available General Fund is \$11,562.4 million. This figure is based on a beginning balance of \$531.1 million, General Fund revenues of \$10,934.3 million and General Fund revenue adjustments of \$18.3 million identified in the December OSPB forecast plus policy adjustments that add a net of \$78.6 million to the General Fund as previously described in our January 3, 2017 budget proposal. Note that the only change to our FY 2017-18 General Fund available reported in our January 3, 2017 proposal is a slight increase attributable to the carry-over of a slightly higher ending balance due to the net decrease of \$703,779 General Fund in FY 2016-17.

*FY 2017-18 General Fund Expenditures (\$10,892.9 million)*

General Fund expenditures requested for FY 2017-18 total \$10,892.9 million. This sum includes \$10,229.8 million subject to the General Fund reserve requirement in Section 24-75-201.1, C.R.S. and \$593.1 million that is exempt from this reserve requirement. Our January 17, 2017 request includes a net increase of \$64.6 million General Fund that is subject to the reserve requirement and a decrease of \$68.1 million General Fund (Senior Property Tax Exemption in Treasury) that is exempt from the reserve requirement, for a net total General Fund decrease of \$3.5 million relative to our January 3, 2017 request for FY 2017-18.



FY 2017-18 General Fund Reserve (\$669.5 million)

The ending balance of \$669.5 million for FY 2017-18 represents the difference between the General Fund available of \$11,562.4 million and expenditures of \$10,892.9 million. The reserve calculation for Section 24-75-201.1, C.R.S. represents 6.5 percent of expenditures subject to the General Fund reserve limit (or \$10,299.8 million). The 6.5 percent General Fund reserve requirement for FY 2017-18 of \$669.5 million is fully met.

FY 2017-18 General Fund Summary

General Fund Available	\$11,562.4 million
General Fund Expenditures	<u>\$10,892.9 million</u>
General Fund Ending Balance	\$ 669.5 million
General Fund Ending Balance	\$ 669.5 million
General Fund 6.5% Reserve Calculation	<u>\$ 669.5 million</u> <1>
Amount Above (Below) Reserve	\$ 0.0 million

<1> Reserve is calculated based on General Fund appropriations of \$10,299.8 million.

**Closing Comments**

Thank you for your consideration of our FY 2016-17 and FY 2017-18 budget request. As always, if you have questions about this request or the budget in general, please don't hesitate to contact my office at 303-866-3317.

Sincerely,



Henry Sobanet  
Director

Cc: Representative Millie Hamner, Joint Budget Committee Vice-Chair  
 Senator Kevin Lundberg, Joint Budget Committee  
 Senator Dominick Moreno, Joint Budget Committee  
 Representative Dave Young, Joint Budget Committee  
 Representative Bob Rankin, Joint Budget Committee  
 Senate President Kevin Grantham  
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