

Joint Budget Committee



Staff Budget Briefing FY 2025-26

Overview of FY 2025-26 Budget Requests

JBC Working Document - Subject to Change

Staff Recommendation Does Not Represent Committee Decision

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Overview of FY 2025-26 Budget Requests

Submission of Budget Requests

On Friday November 1, the Governor submitted his FY 2025-26 budget request. The Governor's annual request is a comprehensive plan that consists of several elements:

- Amounts requested by Executive Branch agencies for ongoing operations, to be appropriated through the annual general appropriation act (the "Long Bill");
- Placeholders (assumptions) for amounts that will be appropriated for ongoing operations of the Legislative Branch, the Judicial Branch, and those Executive Branch agencies that operate under another elected official (i.e., the Departments of Law, State, and Treasury);
- Amounts the Governor is requesting to fund state facilities and infrastructure;
- Amounts that will be distributed or transferred pursuant to existing constitutional or statutory requirements; and
- Placeholders for amounts that the Governor is proposing be appropriated or transferred through separate legislation.

The Governor typically bases the budget request on the most recent revenue forecast prepared by the Office of State Planning and Budgeting (OSPB). The Governor's FY 2025-26 request is based on the OSPB September 2024 forecast and balances to the General Fund assumed to be available for FY 2025-26 under that forecast.

Each of the Judicial Branch agencies, the Attorney General, the Secretary of State, and the State Treasurer all submit their own budget requests for the ongoing operations of their respective agencies. The OSPB does not review these agencies' requests are not reviewed by OSPB, and the requests generally differ from the placeholder assumptions included in the Governor's budget request.

Links to Access Each Department's Budget Request

The Governor's budget request letter includes a list of all of the "decision items" (also called change requests) included in Executive Branch departments' requests, along with the placeholders for the Judicial and Legislative Branches and the Departments of Law, State, and Treasury. The Governor's list of individual decision items by department begins on page 119 of the electronic document (Attachment 12-1). The Governor's full letter can be accessed through the following link:

<https://drive.google.com/file/d/1Gzo70gGTmrAUzbrq5BTAVqIbhHhnS1sr/view>

If one is interested in more detail for any of these decision items, or in other requested incremental increases related to prior year legislation, prior year budget actions, or common policies, individual department budget requests can be accessed on the OSPB website at:

<https://drive.google.com/drive/folders/114aHyoO9WhPM-0qwqPcd5oiw5JA1fl5r>

The following links provide access to the remaining departments' FY 2025-26 budget requests:

Department of Law:

<https://coag.gov/app/uploads/2024/11/Colorado-Department-of-Law-FY2025-26-Budget-Request.pdf>

Department of State:

Not available at time of publication.

Treasury Department:

<https://treasury.colorado.gov/budget-request>

JUDICIAL BRANCH

Judicial Department (Courts and Probation):

Not available at time of publication.

Office of the State Public Defender:

https://www.coloradodefenders.us/wp-content/uploads/OSPD_FY26_Budget_Request_110124.pdf

Office of the Alternate Defense Counsel:

https://www.coloradoadc.org/images/OADCUpload/FY26_Budget_Request_Final.pdf

Office of the Child's Representative:

<https://coloradochildrep.org/about/agency-documents/>

Office of the Respondent Parents' Counsel:

<https://coloradoorpc.org/wp-content/uploads/2024/10/FINAL-ORPC-FY-2025-26-Budget-Request.pdf>

Office of the Child Protection Ombudsman:

https://coloradocpo.org/wp-content/uploads/2024/10/CPO-FY-2025-26-Budget-Request_November-1-2024.pdf

Independent Ethics Commission:

Not available at time of publication.

Office of Public Guardianship:

<https://colorado-opg.org/wp-content/uploads/2024/11/COPG-FY2025-26-Budget-Request.pdf>

Introduction

JBC Staff seeks to accomplish two goals with this document as the Committee moves into the FY 2025-26 budget process.

- The first section attempts to set the context for the range of balancing proposals included in the FY 2025-26 request. Changes in revenue and expenditure assumptions have tightened the budget outlook since the end of the 2024 regular session for both FY 2024-25 (the current year) and FY 2025-26.
- The second section provides a broad overview of the FY 2025-26 budget requests submitted by the Governor, the Judicial Branch, and the statewide elected officials, relative to the FY 2024-25 appropriation and to the most recent revenue forecasts from Legislative Council Staff (LCS) and OSPB.

Take-home Message: The Budget is Tighter than Recent Years.

The General Assembly faces a more constrained budget for FY 2025-26 than has been the case in recent years. Staff offers three major causes for the tightening budget: (1) the depletion of one-time funding available since FY 2020-21; (2) constitutional requirements that will reduce the amount of *annual growth* in General Fund available relative to recent years; and (3) continued upward pressure on the budget due to caseload.

One-time Money

The General Assembly has been appropriating significant amounts of one-time money each year since FY 2020-21.

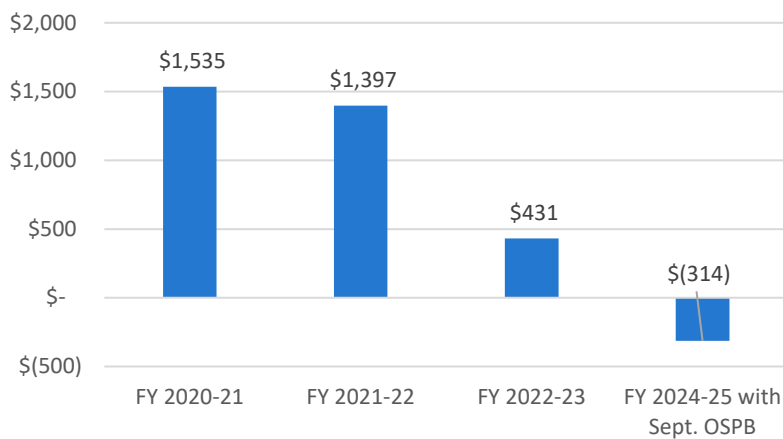
- Federal stimulus funds have offset potential General Fund obligations in many areas. Similarly, federal Medicaid funds from the enhanced FMAP reduced what would have been additional General Fund costs for that program. However, the stimulus funds will be fully exhausted in FY 2024-25 and the enhanced Federal Medicaid Assistance Percentage (FMAP) has phased out. The one-time federal funding is no longer available to offset General Fund.
- The State has also been spending down one-time General Fund revenues. For FY 2020-21, the General Assembly reduced General Fund appropriations by nearly \$900 million below the FY 2019-20 level based on anticipated revenue reductions due to the COVID-19 pandemic. But General Fund revenues far exceeded expectations in FY 2020-21. The General Fund ended that fiscal year with \$1.5 billion more than would have been required for a 15.0 percent reserve (which equated to a 29.0 percent reserve relative to approximately \$11.0 billion in appropriations subject to the reserve for the year).¹
- That excess General Fund is also one-time funding, and the General Assembly has been spending it down since FY 2020-21. The excess reserve decreased to \$431.2 million at the end of FY 2022-23. The September 2024 revenue forecasts from the Office of State

¹ The actual reserve *requirement* for FY 2020-21 was only 2.9 percent. The General Assembly reduced the reserve requirement from 7.25 percent in FY 2018-19 to 3.0 percent for FY 2019-20 and 2.9 percent for FY 2020-21 because it expected to need to spend down the reserve in addition to taking the \$900 million in reductions in FY 2020-21. Thus, the excess reserve for FY 2020-21 was actually \$2.9 billion above the statutory 2.9 percent requirement.

Planning and Budgeting (OSPB) and Legislative Council Staff (LCS) project that the excess reserve will be gone before the end of FY 2024-25.

- In fact, barring changes to current obligations the General Fund would fall more than \$300 million below the 15.0 percent reserve requirement in FY 2024-25 under both September revenue forecasts, with a deficit of \$370.8 million under LCS and 313.7 million under OSPB (see figure below showing the scenario under the OSPB forecast). Please note that staff has excluded FY 2023-24 from the figure because the excess reserve for that year is severely inflated by the mechanics of the “big swap” refinancing General Fund with stimulus funds in H.B. 24-1466.

The State has spent down the General Fund excess reserve since FY 2020-21 and is projected to fall more than \$300 million below the reserve requirement for FY 2024-25. (Assumes 15.0 percent reserve each year; \$ in millions)



Based on the depletion of the one-time funding, it is clear that General Fund spending has exceeded the *annual* revenues available for appropriation (given revenue collections and constitutional requirements) for the past several years. Now that the excess revenue is gone, spending through appropriations and transfers from the General Fund will have to align with annual revenues, reducing flexibility that has been available to the General Assembly since FY 2020-21. Aligning with annual revenues will require spending reductions and/or measures to make additional revenues available (the Governor’s request includes proposals in both categories).

Constitutional Constraints for Revenue – Decreasing Inflation and Increasing Cash Funds

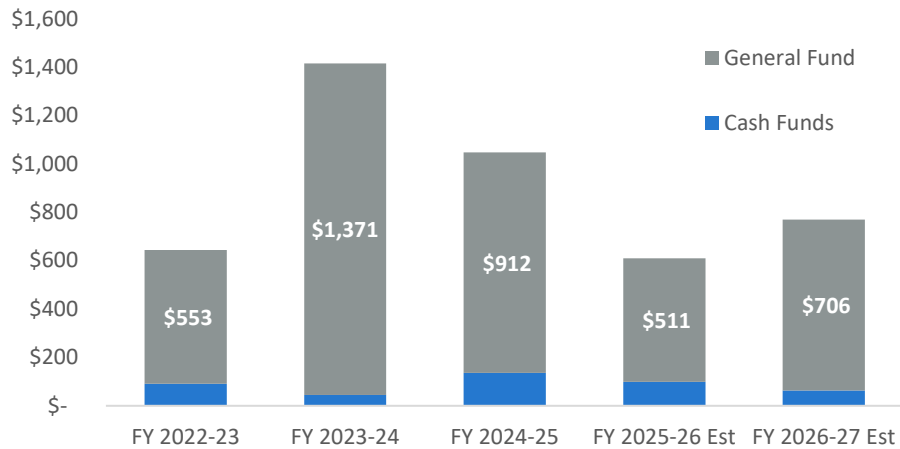
The State was spending down the excess General Fund during a period of high growth in *annual* General Fund revenues. In a TABOR surplus environment (as long as revenues are above the Referendum C cap), TABOR restricts the amount of annual revenue that is actually available for appropriation. The cap (General Fund plus cash fund revenues subject to TABOR) increases each year by the sum of the percentage change in population and the inflation rate (consumer price index) from the previous calendar year (CY). Population growth and inflation from CY 2024 will determine the TABOR cap for FY 2025-26.

This system means three variables are important in determining the amount of General Fund available when collections exceed the cap.

- **Population growth** is relatively consistent, although a spike in population growth in CY 2021 (3.5 percent) actually increased the Referendum C cap by 4.2 percent for FY 2022-23 even as inflation was relatively low (0.7 percent in CY 2021). Going forward, both September forecasts anticipate population growth at or below 1.0 percent per year.
- **Inflation** fluctuates more than population growth and has been the major driver of increases in the cap since FY 2022-23. In CY 2022, 8.0 percent inflation combined with 0.5 percent population growth to increase the cap by 8.5 percent (\$1.4 billion) in FY 2023-24. With inflation at 5.2 percent in CY 2023, the cap increased by 5.8 percent (\$1.0 billion) for FY 2024-25. In total, the cap increased by \$3.1 billion (19.4 percent) from FY 2022-23 through FY 2024-25 (not adjusted for inflation). Projected decreases in inflation will reduce the growth in the cap going forward. For example, LCS is projecting 2.7 percent inflation for CY 2024, and OSPB is projecting 2.5 percent.
- **Cash fund revenues subject to TABOR** also affect the amount of General Fund the State retains. As long as the State is above the TABOR cap, one dollar of additional cash fund revenue forces out a dollar of General Fund through the TABOR refund. When inflation is dramatically increasing the cap cash fund growth is less important. For example, in FY 2022-23, a \$45.1 million increase in cash fund revenues still left room for a \$1.4 billion increase in the General Fund retained under the cap. However, if growth in the cap slows then cash funds can play a larger role. For FY 2025-26, OSPB is projecting an increase of \$99.6 million in cash fund revenues – which leaves an increase of \$510 million General Fund available under the cap.

The following figure shows the actual increases in the Referendum C cap, divided by cash funds and General Fund for FY 2022-23 through FY 2024-25 and the OSPB projections for FY 2025-26 and FY 2026-27. Staff has used the September 2024 OSPB forecast here because it is the basis of the Governor’s FY 2025-26 budget request.

Dereasing inflation has reduced annual growth in the Referendum C cap since FY 2023-24. (September 2024 OSPB, \$ in millions)



Increasing caseload costs crowd out other funds.

The factors outlined above (depletion of one-time money and constraints on revenue retention) both reduce the amount available to the General Assembly for FY 2025-26. At the same time, costs associated with caseload (particularly Medicaid but also school finance, Corrections, and Human Services programs) continue to increase.

- In FY 2024-25, Medicaid costs eclipsed school finance as the largest use of General Fund, and the Governor’s FY 2025-26 request expects that trend to continue. The request includes an increase of \$458.8 million General Fund for forecast-related Medicaid caseload in FY 2025-26 and assumes an *additional* \$380.8 million in FY 2026-27. In total, the HCPF request for FY 2025-26 represents an increase of \$422.2 million (8.5 percent) above the FY 2024-25 appropriation.
- The request proposes an increase of \$115.0 million General Fund (2.5 percent) for school finance for FY 2025-26 and anticipates an *additional* \$180.0 million for FY 2026-27 as the fund balance of one-time funding in the State Education Fund declines.
- The Department of Corrections is requesting an increase of \$16.3 million for caseload in FY 2025-26, including \$8.2 million in prison caseload (request R1) and \$8.1 million for medical caseload costs (request R2).

Those three items account for an increase of \$590.1 million General Fund for FY 2025-26. Meanwhile, OSPB currently projects a \$610.1 million increase in the Referendum C cap in FY 2025-26 – and only a \$510.5 million increase in General Fund available. **Based on that forecast, the caseload increases for HCPF, school finance, and Corrections would exceed the annual increase in General Fund available in FY 2025-26 under the OSPB forecast.** Based on a slightly higher assumption for inflation and population growth, the September LCS forecast anticipates an increase of \$705.7 million in the Referendum C cap and \$633 million in General Fund available.

What has changed since the 2024 session?

The budget outlook for FY 2024-25 and FY 2025-26 has also tightened since the end of the 2024 Session.

- At the end of the 2024 Session, using the March 2024 OSPB revenue forecast (selected by the Committee for balancing), staff projected that the General Fund would end FY 2024-25 \$34.9 million below the statutory reserve requirement because of late-breaking information related to the Health Insurance Affordability Enterprise.
- As noted above, both of the September 2024 revenue forecasts project that the ending balance will fall more than \$300 million short of the reserve requirement this year.
- That means that maintaining the 15.0 percent reserve at the end of FY 2025-26 will require the General Assembly to backfill a shortfall of more than \$300 million over the two years *in addition to* aligning FY 2025-26 obligations with the available revenues.

The largest change since the 2024 Session is an increase in Medicaid costs in the Department of Health Care Policy and Financing. The Department overspent its FY 2023-24 General Fund appropriation by about \$150 million, and the Executive Branch expects those additional costs (above the forecast assumed in the current FY 2024-25 appropriation) to be ongoing.

Largely due to that overexpenditure, the General Fund started FY 2024-25 with a balance \$193.6 million lower than was projected at the end of the 2024 Session. That shortfall combines with additional costs anticipated for FY 2024-25 to put the General Fund in a deeper hole as the Committee looks toward FY 2025-26, even as the caseload costs continue to rise.

Staff also notes that two other factors are showing smaller impacts to the General Fund *available* in FY 2024-25 and FY 2025-26.

- First, both September forecasts project higher cash fund revenues (subject to TABOR) than were assumed in the March OSPB forecast. Those additional cash funds directly reduce the General Fund available for appropriation by pushing more General Fund out as TABOR refunds. OSPB's September forecast is \$32.6 million higher than the March forecast for FY 2024-25 and \$38.55 higher for FY 2025-26.
- Second, OSPB has decreased their inflation projections since March. The March OSPB forecast anticipated a CPI of 2.7 percent for CY 2024 (driving the calculation for FY 2025-26). Their September forecast anticipates a rate of 2.5 percent for the current year (a decrease of 0.2 percent).

With a FY 2024-25 TABOR limit of \$19.1 billion, each 0.1 percent decline in inflation (or population growth) reduces the projected cap by \$19.1 million. The September OSPB forecast projects a Referendum C cap for FY 2025-26 that is \$40.0 million lower than the March projection based on the reduced inflation assumption.

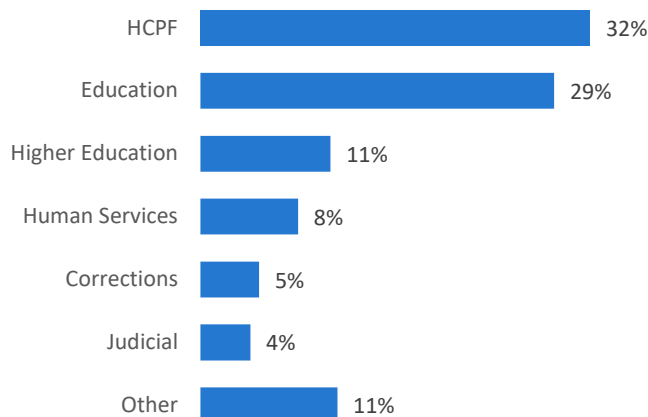
FY 2024-25 Appropriations and FY 2025-26 Request

FY 2024-25 Appropriations

The existing FY 2024-25 operating budget (excluding capital) includes a total of \$15.6 billion in General Fund appropriations, an increase of \$1.4 billion (10.0 percent) above the final \$14.2 billion appropriation for FY 2023-24. However, it is important to note that the FY 2023-24 appropriation is misleadingly low as a result of legislation refinancing General Fund appropriations with federal stimulus funds (H.B.24-1466). Total appropriations from all fund sources increased by \$2.2 billion (5.4 percent) from FY 2023-24 to FY 2024-25.

As illustrated in the following graphic, nearly 90 percent of current General Fund appropriations are concentrated in six of the 23 departments (sometimes referred to as the “Big Six”). In a change from prior years, the Department of Health Care Policy and Financing has eclipsed the Department of Education as the largest recipient of General Fund appropriations for FY 2024-25.

Six departments account for nearly 90 percent of FY 2024-25 General Fund appropriations. HCPF and Education account for more than 60 percent.

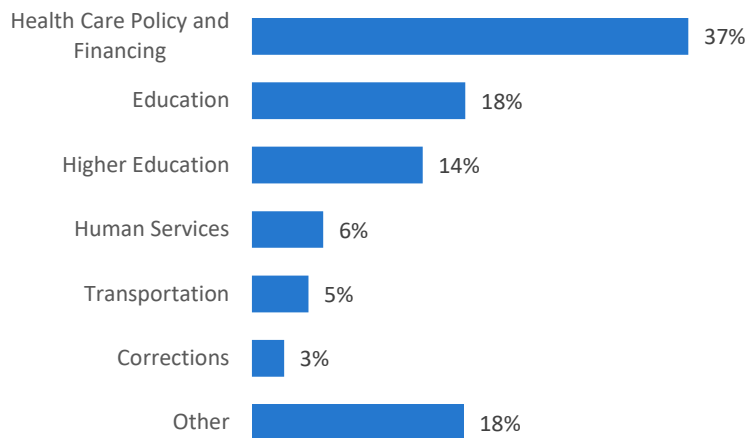


Based on current FY 2024-25 appropriation.

Including other fund sources (primarily cash and federal funds) changes the distribution.

- Health Care Policy and Financing accounts for 36.6 percent of total statewide appropriations, and Education falls to 17.9 percent. However, it is important to note that local tax revenues provide significant support for education funding statewide, and local education revenues are not reflected in the state budget.
- The Department of Transportation moves up to fifth in total appropriations because of the large amount of cash and federal funds in that department, representing 4.7 percent of the total. Corrections and Judicial, which have relatively little funding other than General Fund, both slip lower. The Judicial Branch falls to seventh and is captured in the “Other” category in the following figure.

Health Care Policy and Financing represents nearly 37 percent of total state appropriations in FY 2024-25.



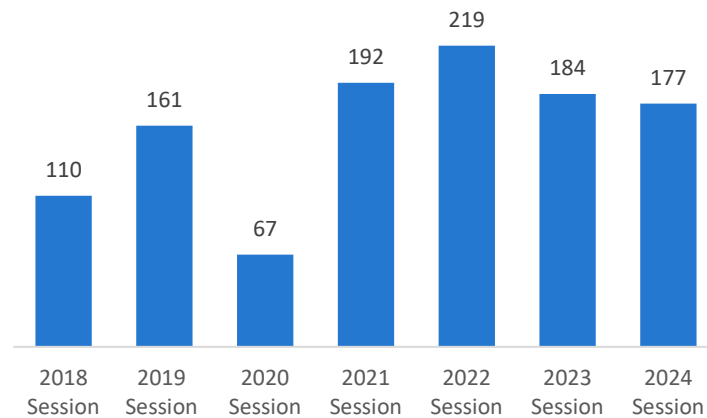
Based on the current FY 2024-25 appropriation.

The General Assembly appropriates most of the annual funding for state government appropriations through the Long Bill (e.g., H.B. 24-1430) and the annual Legislative Branch appropriation bill (e.g., H.B. 24-1347). These two bills provide funding for the ongoing operations of all departments *based on current law*. Separate bills that make statutory changes account for the remaining appropriations. In most years, these other bills add a relatively small amount of funding to the budget.

- For example, appropriations in those separate bills represent 1.3 percent of the *total* operating appropriation in FY 2024-25.
- For the General Fund, separate bill enacted in 2024 actually resulted in a net decrease of \$503.0 million in General Fund appropriations. The General Assembly enacted 104 bills that added a total of \$66.0 million in General Fund appropriations. However, five bills *reduced* General Fund appropriations by a total of \$569.1 million, driven primarily by H.B. 24-1466 (Refinance Federal Coronavirus Recovery Funds).

The number of bills enacted with operating appropriations varies from year to year (see graphic below). The number dipped in 2020 with the resource limitations anticipated during the COVID-19 pandemic (and 28 of the 67 bills from the regular 2020 Session reduced appropriations). The number of bills has increased since then with additional resources available. In the 2024 Session, the General Assembly enacted 177 bills making changes to appropriations.

The number of bills enacted with operating appropriations outside of the Long Bill and Legislative Appropriation Bill fluctuates from year to year.



Mid-year Changes to FY 2024-25 Operating Appropriations

The Governor’s budget request includes a placeholder for a net increase of \$87.0 million in General Fund appropriations for FY 2024-25. The Committee approved three interim supplemental requests for a total of \$1.2 million General Fund in September 2024, and the Governor’s placeholder includes those amounts. Other than the interim supplementals, the details behind the placeholder are not yet available. The placeholder reflects the Governor’s Office estimate of requests that will be submitted with the January 2025 supplemental requests. *Appendix A details the mid-year adjustments for FY 2024-25 that the Committee has approved to date through the interim supplemental process.*

Requests for FY 2025-26 Ongoing Operations

Table 1 summarizes the current (total) operating budget for FY 2024-25 and the incremental changes requested by each department for FY 2025-26, resulting in the total operating appropriations requested for the coming year. The Committee should note that this table includes all requests submitted as decision items. *This table does not reflect legislative placeholders identified by the Governor but not submitted as decision items.*

Staff has sorted the table based on General Fund change, from the largest dollar increase (Health Care Policy and Financing) to the largest decrease (Higher Education). Staff has highlighted the changes caused by annualization of the “big swap” in H.B. 24-1466. The reduction shown in cash funds for each of those departments indicates the magnitude of the General Fund increase driven by that annualization alone (\$324.0 million in Corrections, \$63.2 million in Human Services, and \$200.0 million in Judicial). Table 1 focuses on requested incremental changes. See Appendix B for the *total* request for each department for FY 2025-26.

Table 1: Requested Changes in Appropriations for FY 2025-26, by Department and Fund Source
Sorted by Incremental General Fund Change

| | Total Funds | General Fund | Cash Funds | Reappropriated Funds | Federal Funds | FTE |
|---|-------------------------|-------------------------|-------------------------|------------------------|-------------------------|-----------------|
| FY 2024-25 APPROPRIATION: | | | | | | |
| Total | \$43,590,565,548 | \$15,570,803,929 | \$12,641,829,801 | \$2,839,666,650 | \$12,538,265,168 | 66,431.9 |
| FY 2025-26 Requested Appropriation | | | | | | |
| FY 2024-25 Appropriation | \$43,590,565,548 | \$15,570,803,929 | \$12,641,829,801 | \$2,839,666,650 | \$12,538,265,168 | 66,431.9 |
| Health Care Policy and Financing | 1,436,548,041 | 422,158,179 | 165,921,874 | -18,691,712 | 867,159,700 | 0.3 |
| Corrections | 39,795,798 | 366,591,672 | -310,261,491 | -16,628,251 | 93,868 | 11.6 |
| Judicial | 89,755,246 | 278,296,021 | -187,246,529 | -1,294,246 | 0 | 111.1 |
| Education | -247,137,632 | 114,413,358 | -362,159,489 | -300,350 | 908,849 | 7.3 |
| Human Services | 13,451,722 | 66,558,107 | -61,431,289 | 9,020,054 | -695,150 | 99.7 |
| Natural Resources | -27,868,947 | 15,130,272 | -45,579,146 | 395,797 | 2,184,130 | 68.9 |
| Early Childhood | 9,528,266 | 8,151,035 | 8,692,949 | 2,305,947 | -9,621,665 | 9.0 |
| Revenue | 25,638,203 | 5,951,509 | 19,849,101 | -162,407 | 0 | 75.6 |
| Public Safety | 38,471,652 | 5,104,334 | 18,709,681 | 14,561,805 | 95,832 | 17.1 |
| Local Affairs | 5,209,825 | 3,786,261 | 1,773,043 | -520,304 | 170,825 | 5.6 |
| Legislative Department | 2,412,498 | 2,412,498 | 0 | 0 | 0 | 0.0 |
| Law | 5,955,608 | 1,309,107 | 447,011 | 4,068,254 | 131,236 | 5.5 |
| Labor and Employment | 52,589,355 | 542,539 | 41,167,004 | 262,699 | 10,617,113 | -19.5 |
| Military and Veterans Affairs | 1,263,910 | 348,843 | 51,928 | -25,156 | 888,295 | 2.2 |
| Agriculture | 1,025,419 | 156,879 | 892,759 | -11,799 | -12,420 | 4.6 |
| Regulatory Agencies | -800,892 | 149,057 | -1,558,955 | 495,656 | 113,350 | 4.1 |
| Transportation | 97,486,282 | 0 | 142,254,398 | -101,916 | -44,666,200 | 0.0 |
| Personnel | 12,194,373 | -1,020,285 | -3,571,030 | 16,785,688 | 0 | -16.2 |
| Governor | 26,503,309 | -1,441,950 | -5,809,238 | 33,791,169 | -36,672 | -9.5 |
| State | 1,547,547 | -2,500,587 | 4,357,738 | -309,604 | 0 | 4.8 |
| Public Health and Environment | 17,644,720 | -5,947,448 | 7,672,537 | 14,661,659 | 1,257,972 | -35.9 |
| Treasury | -7,365,169 | -11,342,571 | 2,849,529 | 1,127,873 | 0 | 8.5 |
| Higher Education | -39,996,736 | -38,340,563 | 62,326,580 | -63,730,893 | -251,860 | -223.7 |
| Total FY 2025-26 Request | \$45,144,417,946 | \$16,801,270,196 | \$12,141,178,767 | \$2,835,366,613 | \$13,366,602,371 | 66,563.0 |
| Increase/Decrease | \$1,553,852,398 | \$1,230,466,267 | -\$500,651,035 | -\$4,300,037- | \$828,337,203 | 131.1 |
| Percentage Change | 3.6% | 7.9% | -4.0% | -0.2% | 6.6% | 0.2% |

The request for FY 2025-26 (including the independent agencies) represents an increase of \$1.6 billion total funds (3.6 percent) and \$1.2 billion General Fund (7.9 percent). The Committee should note the following:

- As mentioned above, annualization of H.B. 24-1466 inflates the overall General Fund increase. The \$587.2 million associated with that annualization represents nearly half of the total General Fund increase for FY 2025-26. As this is reversing the “big swap,” it does *not* represent programmatic increases for the three departments involved.

- The increase for **Health Care Policy and Financing** is nearly all forecast/caseload driven. *Please note that HCPF's budget request will be discussed in more detail in the Staff Briefing documents presented by Emily Pope (December 10, 2024), Eric Kurtz (December 11, 2024) and Tom Dermody (December 17, 2024).*
- The Department of **Corrections** is requesting a net increase of \$42.6 million General Fund above the \$324.0 million associated with H.B. 24-1466. That amount includes \$18.5 million for salary survey increases, \$16.3 million related to caseload (requests R1 and R2), and \$7.5 million for non-base building incentives for critical staff. *The Department of Corrections budget request will be discussed in more detail in the Staff Briefing document presented by Justin Brakke, currently scheduled for December 4, 2024.*
- The **Judicial Branch** is requesting \$78.2 million over and above the \$200.0 million associated with H.B. 24-1466. It is important to note that the Governor's budget assumed a 3.0 percent operating increase for the Judicial Branch for FY 2025-26, which would equate to approximately \$25 million. Judicial's requested increase is approximately three times that amount, which results in the total FY 2025-26 request being out of balance even under the OSPB forecast that the Governor used for the submission (as well as the LCS forecast). *Judicial Branch agencies' budget requests will be discussed in more detail in the Staff Briefing documents presented by Alfredo Kemm and Scott Thompson, currently scheduled for December 9, 2024.*
- The Department of **Education's** proposed increase of \$114.4 million is driven by a \$115.0 million increase for school finance. The Department of Education's budget request will be discussed in more detail in the Staff Briefing documents presented by Amanda Bickel (currently scheduled for December 3, 2024) and by Andrea Uhl (currently scheduled for December 5, 2024).
- The Department of **Human Services** increase is nearly all associated with H.B. 24-1466 (an increase of \$63.2 million out of \$66.6 million). *The Department of Human Services budget request will be discussed in more detail in the Staff Briefing documents presented by Emily Pope (scheduled for November 21 December 10, 2024) and Tom Dermody December 4, 2024).*

Finally, staff has highlighted below two of the significant statewide common policies that are reflected in departments' requests for FY 2024-25:

- The Governor is proposing a 2.5 percent across-the-board salary increase for state employees, plus additional funding for the continuation of the step system implemented in FY 2024-25. Excluding Higher Education and the elected officials, the request for total compensation, including salary and benefits, equates to an increase of \$73.0 million General Fund. *Compensation Common Policies (for state employees) will be discussed in more detail in the Staff Budget Briefing document presented by Mitch Burmeister (currently scheduled for November 20, 2024).*
- The Governor is requesting zero increase in common policy provider rates and is proposing targeted reductions to certain provider rates in the Department of Health Care Policy and Financing. Therefore, any provider rate increases would require additional reductions elsewhere to balance the budget. *The Committee is scheduled to hear from the Medicaid Provider Rate Review Advisory Committee (MPRRAC) on November 19, 2024.*

How does the total request align with the most recent revenue forecasts?

The Governor based the November 1 budget request on the September 2024 OSPB revenue forecast. Under the assumptions outlined in the Governor's request (including the 3.0 percent operating increase assumed for Judicial), the proposal would balance General Fund obligations with available revenues in FY 2025-26 and restore the General Fund reserve to 15.0 percent.²

The request includes a number of balancing proposals to:

- Reduce General Fund appropriations, generally included in decision items with in the operating budget. The request includes 63 decision items that decrease General Fund obligations, totaling \$204.04 million in reductions.
- Reclassify the State's PERA direct distribution payments as not subject to the statutory reserve requirement, reducing the reserve requirement by \$24.8 million in FY 2025-26 and subsequent years.
- Make more General Fund available through transfers from other funds. The request proposes \$81.5 million in transfers to the General Fund in FY 2024-25 and \$209.1 million in FY 2025-26.
- Make more General Fund available through either *cash fund revenue reductions* or the use of enterprises to move revenues out from under the TABOR cap.

A number of these proposals require statutory change, and the request includes a large number of placeholders for items that require separate legislation.

If fully implemented, the Governor's proposal would balance under the OSPB forecast, though it would not under the September LCS forecast. However, as noted above, the actual request from the Judicial Branch is more than \$50 million above the 3.0 percent operating increase assumed by the Governor. **As a result, the total request (including all agencies) does not balance with a 15.0 percent reserve under either forecast.** Please note that the General Assembly will receive two more revenue forecasts (December 2024 and March 2025) before finalizing appropriations for FY 2024-25 and setting the budget for FY 2025-26.

General Fund Overviews

Table 2 (on page 15) summarizes the General Fund Overview for the request in relation to the September 2024 OSPB forecast.

With respect to the **OSPB forecast (Table 2)**:

- **As shown in line 32, the request would fall \$206.5 million short of the 15.0 percent reserve requirement for FY 2024-25.** That is an improvement from a \$313.7 million shortfall in the current year under that forecast without the changes proposed in the request. The Governor's request anticipates a proposal to temporarily reduce the reserve for FY 2024-25 rather than seek sufficient reductions through supplementals to eliminate

² Pursuant to H.B. 24-1231 (State Funding for Higher Education Projects) the required reserve for FY 2025-26 is calculated as 15.0 percent of operating appropriations subject to the reserve minus \$41.25 million.

the entire shortfall for the current year. The request proposes increasing the reserve back to 15.0 percent for FY 2025-26.

- **Including the non-executive requests, the total request falls \$58.7 million short of the statutory reserve requirement for FY 2025-26.** Based on this forecast, the General Assembly would need to find an additional \$58.7 million in balancing measures to fully fund the reserve requirement in FY 2025-26.
- A very preliminary estimate shows the reserve falling \$0.8 million short of the 15.0 percent requirement in FY 2026-27. For that estimate, staff has assumed all of the decision item annualizations indicated in the FY 2025-26 request and included placeholder assumptions for total compensation, higher education, capital construction, and IT capital construction. However, staff is continuing to refine those estimates and will return to the Committee during the briefing process with a new tool to analyze outyear impacts (going beyond FY 2027-28).

Table 3 (on page 15) summarizes the General Fund Overview for the request in relation to the September 2024 **LCS forecast**.

- **The shortfall below the reserve requirement is somewhat larger under the LCS forecast for both FY 2024-25 (\$263.6 million versus \$206.5 million under OSPB) and FY 2025-26 (\$67.9 million versus \$58.7 million under OSPB).**
- For the outyear, staff’s preliminary assumptions indicate that the request would meet the 15.0 reserve requirement in FY 2026-27 because the LCS forecast anticipates more revenue to be available in that year.

For both tables, all decision items and appropriation adjustments proposed for the Long Bill are included in the request amounts reflected in line 9. Adjustments that require separate legislation (e.g., statutory changes, transfers to or from the General Fund, changes to enterprises, etc.) are reflected in the various lines labeled as “placeholders” and “balancing proposals”.

Both tables condense many of placeholders and balancing proposals into a single line for each section of the table (e.g., Governor’s Placeholders Subject to Reserve). The section following Table 3 provides some additional detail for the placeholders and balancing proposals that fall outside of the operating appropriation requests reflected in line 9.

Table 2: General Fund Overview
Based on the OSPB September 2024 Forecast
(\$ millions)

| | FY 2023-24 | FY 2024-25 | FY 2025-26 | FY 2026-27 | |
|--|---|-------------------|-------------------|-------------------|-------------------|
| General Fund Available | | | | | |
| 1 | Beginning Reserve | \$2,427.4 | \$3,097.4 | \$2,121.3 | \$2,362.1 |
| 2 | Gross General Fund Revenue | 17,251.4 | 17,202.6 | 17,588.1 | 18,883.5 |
| 3 | Governor Request - Other FY 2024-25 Reversions and Revenues | | \$112.7 | | |
| 4 | Governor Request - Tax Credit Package (reducing tax credits) | | | 133.9 | 150.9 |
| 5 | Governor Request - Pinnacol Conversion | | | 100.0 | 80.0 |
| 6 | Transfers In (existing law reflected in forecast) | 95.1 | 165.1 | 58.4 | 29.8 |
| 7 | Governor Requested Placeholders - Transfers In | | 81.5 | 209.1 | 61.2 |
| 8 | Total General Fund Available | \$19,773.9 | \$20,659.3 | \$20,210.7 | \$21,567.6 |
| LESS: General Fund Obligations | | | | | |
| 9 | Appropriations (Actual, requested November 1, and projected) | \$14,329.6 | \$15,570.8 | \$16,801.3 | \$17,628.8 |
| 10 | Governor Placeholders Subject to Reserve | | 87.0 | -159.0 | -171.5 |
| 11 | LESS: Appropriations for rebates and expenditures (forecast) | -241.9 | -240.6 | -228.6 | -272.1 |
| 12 | LESS: Appropriations from Healthy School Meals Account | -115.3 | n/a | n/a | n/a |
| 13 | Subtotal: Appropriations subject to statutory reserve requirement | \$13,972.4 | \$15,417.1 | \$16,413.7 | \$17,013.7 |
| 14 | Rebates and Expenditures (reflected in forecast) | \$241.9 | \$194.8 | \$191.1 | \$188.9 |
| 15 | Governor's Placeholder – PERA DD NOT Subject to Reserve | | | 165.4 | 165.4 |
| 16 | Appropriations from Healthy School Meals Account | \$115.3 | n/a | n/a | n/a |
| 17 | TABOR Refund [Article X, Section 20 (7)(d)] | | | | |
| 18 | Current year revenue above Referendum C Cap reflected in forecast (refunded in following fiscal year) | \$1,660.3 | \$520.3 | \$381.6 | \$968.3 |
| 19 | Governor Proposal - Tax Credit Package | | | \$133.9 | \$150.9 |
| 20 | Balancing Proposals - Enterprise Conversions and CF Revenues | | -\$6.6 | -\$149.2 | -\$150.3 |
| 21 | <i>Transfers Out and Other Diversions</i> | | | | |
| 22 | Transportation (existing law reflected in forecast) | \$5.0 | \$117.5 | \$117.5 | \$117.5 |
| 23 | Capital/IT projects (existing law/reflected in forecast) | \$392.6 | \$254.1 | \$203.4 | \$200.5 |
| 24 | Other Transfers and Diversions (existing law reflected in forecast) | \$543.9 | \$2,047.3 | \$427.8 | \$435.2 |
| 25 | Governor Placeholders | | -\$6.4 | -\$36.5 | -\$33.0 |
| 26 | Subtotal: Other Obligations | \$2,959.0 | \$3,120.9 | \$1,434.9 | \$2,043.4 |
| 27 | Total General Fund Obligations | \$16,931.4 | \$18,538.1 | \$17,848.6 | \$19,057.1 |
| PLUS: Reversions and Accounting Adjustments (including under-refunds of TABOR surpluses from prior years) | | | | | |
| 28 | | \$254.9 | n/a | n/a | n/a |
| Reserve | | | | | |
| 29 | Fiscal Year-end General Fund Reserve | \$3,097.4 | \$2,121.3 | \$2,362.1 | \$2,510.4 |
| 30 | Statutorily Required Reserve Percent | 15.0% | 15.0% | 15.0% | 15.0% |
| 31 | Required Reserve Amount | \$2,054.6 | \$2,327.8 | \$2,420.8 | \$2,511.3 |
| 32 | Year-end Reserve Above/(Below) Requirement | \$1,042.8 | (\$206.5) | (\$58.7) | (\$0.8) |

Table 3: General Fund Overview
Based on the LCS September 2024 Forecast
(\$ millions)

| | FY 2023-24 | FY 2024-25 | FY 2025-26 | FY 2026-27 | |
|--|---|-------------------|-------------------|-------------------|-------------------|
| General Fund Available | | | | | |
| 1 | Beginning Reserve | \$2,427.4 | \$3,097.4 | \$2,064.2 | \$2,352.9 |
| 2 | Gross General Fund Revenue | \$17,251.4 | \$16,934 | \$17,962.1 | \$18,679.2 |
| 3 | Governor Request - Other FY 2024-25 Reversions and Revenues | | \$112.7 | | |
| 4 | Governor Request - Tax Credit Package (reducing tax credits) | | | \$133.9 | \$150.9 |
| 5 | Governor Request - Pinnacol Conversion | | | \$100.0 | \$80.0 |
| 6 | Transfers In (existing law reflected in forecast) | \$95.1 | \$177.4 | \$70.0 | \$45.6 |
| 7 | Governor Requested Placeholders - Transfers In | | \$81.5 | \$209.1 | \$61.2 |
| 8 | Total General Fund Available | \$19,773.9 | \$20,403.0 | \$20,539.3 | \$21,430.9 |
| LESS: General Fund Obligations | | | | | |
| 9 | Appropriations (Actual, requested November 1, and projected) | \$14,329.6 | \$15,570.8 | \$16,801.3 | \$17,628.8 |
| 10 | Governor Placeholders - Appropriations Subject to Reserve | | \$87.0 | -\$159.0 | -\$171.5 |
| 11 | Governor Placeholder - FY 2024-25 Supplemental Adjustments | | \$87.0 | | |
| 12 | LESS: Appropriations for rebates and expenditures | -\$241.9 | -\$240.6 | -\$228.6 | -\$282.5 |
| 13 | LESS: Actual Expend from Healthy School Meals Account | <u>-\$115.3</u> | <u>n/a</u> | <u>n/a</u> | <u>n/a</u> |
| 14 | Subtotal: Appropriations subject to statutory reserve requirement | \$13,972.4 | \$15,417.1 | \$16,413.7 | \$17,003.3 |
| 15 | Rebates and Expenditures (reflected in forecast) | \$241.9 | \$178.9 | \$185.8 | \$182.4 |
| 16 | Governor Placeholder -PERA DD NOT Subject to Reserve | | | \$165.4 | \$165.4 |
| 17 | Appropriations from Healthy School Meals Account | \$115.3 | n/a | <u>n/a</u> | <u>n/a</u> |
| 18 | TABOR Refund [Article X, Section 20 (7)(d)] | | | | |
| 19 | Current year revenue above Referendum C Cap reflected in forecast (refunded in following fiscal year) | \$1,660.3 | \$365.2 | \$747.3 | \$727.4 |
| 20 | Governor Proposal - Tax Credit Package | | | \$133.9 | \$150.9 |
| 21 | Balancing Proposals - Enterprise Conversions and CF Revenues | | -\$6.6 | -\$149.2 | -\$150.3 |
| <i>Transfers Out and Other Diversions</i> | | | | | |
| 22 | Transportation (existing law reflected in forecast) | \$5.0 | \$117.5 | \$117.5 | \$117.5 |
| 23 | Capital/IT projects | \$392.6 | \$254.1 | \$203.4 | \$200.5 |
| 24 | Other Transfers and Diversions (existing law reflected in forecast) | \$543.9 | \$2,019.0 | \$405.2 | \$409.8 |
| 25 | Governor Placeholders | | -\$6.4 | -\$36.5 | -\$33.0 |
| 26 | Subtotal: Other Obligations | \$2,959.0 | \$2,921.7 | \$1,772.8 | \$1,770.5 |
| 27 | Total General Fund Obligations | \$16,931.4 | \$18,338.8 | \$18,186.4 | \$18,773.8 |
| PLUS: Reversions and Accounting Adjustments (including under-refunds of TABOR surpluses from prior years) | | | | | |
| 28 | | \$254.9 | n/a | n/a | n/a |
| Reserve | | | | | |
| 29 | Fiscal Year-end General Fund Reserve | \$3,097.4 | \$2,064.2 | \$2,352.9 | \$2,657.1 |
| 30 | Statutorily Required Reserve Percent | 15.0% | 15.0% | 15.0% | 15.0% |
| 31 | Required Reserve Amount | \$2,054.6 | \$2,327.8 | \$2,420.8 | \$2,550.5 |
| 32 | Year-end Reserve Above/(Below) Requirement | \$1,042.8 | (\$263.6) | (\$67.9) | \$106.6 |

Placeholders and Balancing Proposals

The State Constitution requires that the annual general appropriation bill (called the “Long Bill”) include only appropriations for agency expenses that are authorized under current law³. Most of the Governor’s proposal for FY 2025-26 is for purposes authorized under current law, and, if approved, will be included in the 2025 Long Bill. When a proposal within the budget request is contingent on a statutory change, the Governor typically includes a “placeholder” to set aside funding for that purpose. Some of these items are also included in departmental decision item requests, and some are not. The General Assembly may then make the requisite appropriations or transfers through separate legislation. The JBC is often asked to consider sponsoring some of these bills. For example, staff assumes that the Governor is proposing that the Committee sponsor any bill that is embedded in a decision item.

The following sections provide additional detail on the Governor’s placeholders and balancing proposals. Staff has put those proposals into 5 categories based on the mechanism in play: (1) proposals that increase *revenues to* the General Fund (tax changes and transfers into the General Fund); (2) proposals that adjust appropriations that are subject to the statutory reserve; (3) proposals that adjust obligations that are not subject to the reserve; (4) proposals that impact the TABOR refund; and (5) proposals impacting transfers *out of* the General Fund.

Proposals to Increase the Balance of the General Fund

The Governor’s request includes a number of proposals to increase the balance of the General Fund. As shown in Tables 2 and 3, staff has divided those proposals into four categories:

- The request assumes \$112.7 million in **reversions and other revenues** will return to the General Fund **in FY 2024-25**. It is staff’s understanding that this is primarily anticipated reversions – and staff assumes that the Governor’s Office will submit additional detail with the January 2025 supplemental request. Capturing these reversions for the purpose of balancing the budget will require reducing the existing FY 2024-25 appropriations (and at that point will change the “category” of proposal in the General Fund Overview).
- The request includes a placeholder for a **tax credit package** assumed to increase General Fund tax collections by \$133.9 million in FY 2025-26 and \$150.9 million in FY 2026-27. Major changes include: (1) an estimated increase of \$100.0 million per year based on repealing the sales tax exemption for downloadable software and (2) an increase of \$35.0 million in FY 2025-26 and \$70.0 million in subsequent years based on adjustments to regional home office premium tax credits. The request also proposes to expand the Film Incentive Tax Credit by \$2.5 million in beginning in FY 2025-26. JBC Staff do not intend to provide recommendations on the specific tax credit changes proposed in the request. Staff does note, however, that tax credits enacted in 2024 have significantly reduced the TABOR

³Article V, Section 32 of the State Constitution specifies the general appropriation bill “shall embrace nothing but appropriations for the expense of the executive, legislative and judicial departments of the state, state institutions...and for public schools. All other appropriations shall be made by separate bills, each embracing but one subject.”

surplus for FY 2024-25 and FY 2025-26. Additional credits could take revenues below the referendum C cap even without a recession.

- Third, Statewide Decision Item R2 proposes to reform **Pinnacol Assurance** (a quasi-independent political subdivision) to generate additional revenues that would be available to the General Fund. The proposal assumes \$100 million in revenue in FY 2025-26 and \$80 million in FY 2026-27. The Governor’s Office believes that the revenues would be exempt from TABOR and available for appropriation and has proposed using the revenues to reduce the existing General Fund obligation for PERA direct distribution. That said, the General Assembly could move forward with the proposal regardless of the specific use of funds. *Alfredo Kemm will discuss the proposed conversion of Pinnacol with the briefing on the Department of Regulatory Agencies, scheduled for November 21, 2024.*
- Finally, the request includes a number of proposals to increase **transfers to the General Fund**. The proposals would transfer an additional \$81.5 million to the General Fund in FY 2024-25 and \$209.1 million in FY 2025-26 (and a preliminary estimate of \$61.2 million in FY 2026-27 and ongoing). Table 4 summarizes the proposed changes.

| | FY 2024-25 | FY 2025-26 | FY 2026-27 |
|---|---------------|----------------|---------------|
| Restructure Severance Tax (NAT R10) | | \$81.5 | \$34.1 |
| Sweep a Portion of Nonexempt CF Interest Revenue (Statewide R1) | \$67.5 | \$50.9 | \$25.0 |
| Electrifying School Buses Grant Program Cash Fund (PHE R6) | \$14.0 | \$24.5 | |
| Workers Compensation Cash Fund Sweep | | \$15.0 | |
| Eliminate the State Employee Reserve Fund (LAB R2) | | \$12.0 | |
| Sweep from Local Government Severance Tax (LOC R5) | | \$10.0 | |
| ARPA Project Reversions (Various) | | \$3.3 | |
| Technology Risk Prevention and Response Sweep (OIT R2) | | \$2.5 | |
| Discontinue Limited Gaming Fund Support of CHECRA (HED R9) | | \$2.1 | \$2.1 |
| Substance Use Workforce Stability Grant Program ARPA Reversion | | \$2.0 | |
| LEAP/CBMS Data System Interface ARPA Reversion | | \$1.9 | |
| Crim Just Intervention Detection and Redirection ARPA Reversion | | \$1.0 | |
| Sustainable Funding for CEO (CEO R1) | | \$0.9 | |
| Nutrients Grant Fund and Natural Disaster Cash Funds (PHE R7) | | \$0.4 | |
| Adams County Facility Renovation Study ARPA Reversions | | \$0.5 | |
| Inactive Education Cash Funds Sweep (EDU R12) | | \$0.3 | |
| Children, Youth, and Family Behavioral Health ARPA Reversion | | \$0.2 | |
| Colorado Identity Theft and Financial Fraud Fund (PUBSAF R9) | | \$0.1 | |
| Nuclear Materials Transportation Fund (PUBSAF R8) | | \$0.1 | |
| Total Placeholder for Transfers In | \$81.5 | \$209.1 | \$61.2 |

The majority of these transfers will be addressed through briefing presentations for the affected departments. For example, Mitch Burmeister will discuss the proposal to restructure severance tax (Natural Resources request R10, which is the largest item in this category) on December 2, 2024. Andrew McLeer will address the proposed transfers associated with electrifying school buses (Public Health and Environment R6) on December 3, 2024.

For the purposes of this Overview document, staff highlights Statewide Request R1 (Sweep a Portion of Nonexempt CF Interest Revenue). Interest earned on nonexempt cash fund revenues is subject to TABOR, and the interest earnings currently force out General Fund through the TABOR refund. This statewide decision item proposes to:

- Transfer \$67.5 million in interest earnings from specific cash funds to the General Fund in FY 2024-25 and \$50.9 million in FY 2025-26.
- Cap interest earnings on a suite of cash funds and transfer any earnings above 1.5 percent per year to the General Fund to cover a portion of the TABOR refund for the year.
- The request excludes cash funds that are continuously appropriated and also seeks to exclude any funds where the cap would create insolvency risk or operational issues.

JBC Staff will analyze the cash funds affected by this proposal as part of the standard briefing and figure setting process for each department. Staff will return to the Committee with recommendations regarding the proposed transfers to be included in potential JBC legislation for the 2025 session.

Adjustments to Appropriations Subject to the Reserve

Table 5 breaks out proposals to adjust appropriations that are subject to the statutory reserve (like most General Fund operating appropriations). The request includes an assumed increase of \$87.0 million General Fund for FY 2024-25 through supplemental adjustments to be submitted in January 2025 and a net reduction of \$159.0 million in appropriations subject to the reserve for FY 2025-26.

| | FY 2024-25 | FY 2025-26 | FY 2026-27 |
|--|---------------|-----------------|-----------------|
| Governor Placeholder - FY 2024-25 Supplemental Adjustments | \$87.0 | \$0.0 | |
| Governor Placeholder - Fire Prevention Investments | | \$5.0 | |
| Governor Placeholder - General Assembly Legislative Priorities | | \$4.3 | |
| Governor Placeholder - Executive Branch Priorities | | \$3.1 | |
| Balancing Proposal - PERA DD not Subject to Reserve | | -\$165.4 | -\$165.4 |
| Balancing Proposal - Line Item Consolidation/1% Reduction (Statewide R4) | | -\$5.5 | -\$5.5 |
| Balancing Proposal - Round Down to Nearest \$1,000 (Statewide R5) | | -\$0.4 | -\$0.4 |
| Balancing Proposal - Boards and Commissions Efficiencies (Statewide R8) | | -\$0.2 | -\$0.2 |
| Total Placeholders for Appropriations Subject to Reserve | \$87.0 | -\$159.0 | -\$171.5 |

The request includes three placeholders for increases in FY 2025-26, totaling \$12.4 million:

- \$5.0 million for “fire prevention activities” framed as repurposing funds previously allocated to the Local Firefighter Safety and Disease Prevention Fund.
- \$4.3 million (a total of \$5.0 million accounting for the reserve requirement) for the General Assembly’s legislative priorities.

- \$3.1 million for 28 specific legislative proposals submitted by the Governor’s Office. For additional information, see Attachment 3 of the Governor’s submittal letter.⁴

The request includes four balancing proposal placeholders that would reduce General Fund appropriations that are subject to the reserve requirement.

- The Governor is proposing to reclassify \$165.4 million in PERA Direct Distribution payments as *not* subject to the reserve. While this proposal does not reduce the payments to PERA, it would reduce the General Fund reserve requirement by \$24.8 million. The Governor’s Office believes that the reclassification is feasible because the payment is made through warrant and reflected as an informational appropriation in the Long Bill.
- The request includes a total reduction of \$5.5 million associated with a proposal to consolidate personal services and operating line items in many departments and apply a 1.0 percent reduction to the consolidated line item (Statewide request R6). This proposal does not require any statutory change – but is not built into the detailed budget requests submitted by each agency. The request indicates that nearly half of the total reduction (\$2.6 million out of \$5.5 million) would be in the Department of Corrections. Staff has concerns that this proposal could reduce transparency and the legislature’s authority over appropriations but individual analysts will evaluate whether consolidation makes sense in a given department or division.
- The request includes a reduction of \$0.4 million General Fund in FY 2025-26 associated with a proposal to round all General Fund appropriations down to the nearest \$1,000 (Statewide request R5). The proposal would round all fund sources in the budget going forward. For FY 2025-26 only, it would round all General Fund and cash funds appropriations down to the nearest \$1,000, use standard rounding for reappropriated funds, and round all federal funds up to the nearest \$1,000. In effect, the proposal seeks to stop budgeting and appropriating to the dollar – and the Governor’s Office indicates that applying the mechanism in FY 2025-26 would save \$0.4 million General Fund.
- Statewide request R8 proposes an estimated reduction of \$0.2 million through the elimination or restructuring of several boards and commissions. The request states that the boards and commissions have either reached their intended goal, are redundant, or can be absorbed by existing structures. Specifically, the request proposes to sunset four entities within the Department of Public Health and Environment (Stroke Advisory Board, Governor’s Expert Emergency Epidemic Response Committee, Radiation Advisory Council, and Small Business Stationary Source Tech and Environmental Advisory Panel) as well as the CSU Veterinary Education Loan Repayment Council in Higher Education. The request proposes to modify the Online and Blended Learning Program Review Committee in the Department of Education and the State Medical Assistance Advisory Council in the Department of Health Care Policy and Financing. Individual analysts will make recommendations regarding boards and commissions within their assignments.

⁴ The letter is available at: <https://drive.google.com/file/d/1Gzo70gGTmrAUzbrq5BTAVqlbhHhnS1sr/view>

Adjustments to Appropriations NOT Subject to the Reserve

As noted above, the request proposes to reclassify PERA Direct Distribution payments as not subject to the reserve requirement. Thus, tables 2 and 3 reflect a reduction of \$165.4 million to appropriations that *are* subject to the reserve and an increase of \$165.4 million to obligations that are not subject to the reserve (line 16 in the tables).

Adjustments Directly Affecting the TABOR Refund

The request includes ten proposals that directly impact the TABOR refund, with an estimated reduction of \$6.6 million in FY 2024-25 and an estimated net reduction of \$15.3 million in FY 2025-26 (see Table 6). In this context, reducing the TABOR refund means making more General Fund available for appropriation or transfer.

| | FY 2024-25 | FY 2025-26 | FY 2026-27 |
|--|---------------|----------------|--------------|
| Governor Proposal - Tax Credit Package | | \$133.9 | \$150.9 |
| Balancing Proposals - Enterprise Conversions and CF Revenues | -\$6.6 | -\$149.2 | -\$150.3 |
| FASTER Fee Reductions (CDOT R4) | | -\$65.1 | -\$66.2 |
| Enterprise AHEC (HED R13) | | -\$31.4 | -\$31.4 |
| UI Funding Expansion and Realignment (LAB R1) | -\$4.3 | -\$24.5 | -\$24.5 |
| Restructure License Plates Division (REV R6) | | -\$12.0 | -\$12.0 |
| Enterprise Working Adults with Disabilities Fund (HCPF R6) | | -\$6.6 | -\$6.6 |
| Reduced UPTF Transfer to Adult Dental (HCPF R9) | | -\$3.7 | -\$3.7 |
| Merchandise Sales Correction (Statewide R6) | -\$2.3 | -\$2.3 | -\$2.3 |
| Enterprise EV Registration Fee (CEO January Placeholder) | | -\$1.8 | -\$1.8 |
| Enterprise TUDF (HUM R10) | | -\$1.7 | -\$1.7 |
| Total Placeholder for Changes to TABOR Refund | -\$6.6 | -\$15.3 | \$0.6 |

- As shown in table 6, in isolation the tax credit package addressed above would increase the TABOR refund by \$133.9 million in FY 2025-26 by simply increasing General Fund collections above the TABOR cap.
- However, the Governor’s total request includes an estimated \$149.2 million in balancing proposals that would reduce the TABOR refund, resulting in a net reduction of \$15.3 million for FY 2025-26. The largest component is a \$65.1 million reduction in FASTER fee revenues allocated to the Department of Transportation. Reducing those cash fund revenues makes General Fund available under the TABOR cap. The second largest component is a proposal to convert the Auraria Higher Education Campus (AHEC) to an enterprise, reducing a double count of revenues under TABOR by an estimated \$31.4 million. The requests are nearly all submitted as decision items in specific departments, with one held as a placeholder for the January 2025 budget submission. Individual analysts will evaluate the feasibility of each proposal throughout the budget cycle.

Adjustments to Transfers Out of the General Fund

Finally, the request includes a net reduction to transfers from the General Fund for each year (see Table 7). OEDIT request R8 proposes to reduce the transfer for Advanced Industries by \$6.4

million in FY 2024-25 and \$11.3 million in FY 2025-26. As a whole, the Governor’s request would reduce transfers out of the General Fund by \$36.5 million in FY 2025-26.

| | FY 2024-25 | FY 2025-26 | FY 2026-27 |
|--|---------------|----------------|----------------|
| Air Pollution Control Division Stationary Sources (PHE R1) | | \$14.0 | |
| Restructure Severance Tax (DNR R10) | | \$10.7 | \$10.0 |
| Hazardous Substance Response Fund (PHE R3) | | \$6.0 | |
| Sesquicentennial Investment (History CO R1) | | \$5.0 | |
| Corrections Broadband Transfer (COR R7) | | \$1.5 | \$1.5 |
| Reduced SB21-260 Transfers (TRA R3) | | -\$39.0 | -\$24.5 |
| New Cash Fund for Higher Ed Controlled Maint (HED R8) | | -\$20.0 | -\$20.0 |
| Reduce Advanced Industries Transfer (OEDIT R8) | -\$6.4 | -\$11.3 | |
| Reduce Opportunity Next Transfer (OEDIT R7) | | -\$3.3 | |
| Correction to Energy Fund Transfer (CEO January Placeholder) | | -\$0.1 | |
| Total Changes to Transfers Out of the General Fund | -\$6.4 | -\$36.5 | -\$33.0 |

As with the TABOR refund proposals, the Governor submitted (or plans to submit) each of these items as a decision item, and JBC Staff will analyze them with each respective assignment.

For this Overview document, staff would call the Committee’s attention to Higher Education Request R8 (New Cash Fund for Higher Ed Controlled Maintenance). The Committee is aware of this proposal to allow an institution of Higher Education to invest a portion of the General Fund reserve and use the interest earnings (which would no longer be subject to TABOR) to support controlled maintenance costs. JBC Staff will return with a more robust discussion of this proposal during the briefing for the Department of Higher Education on December 17, 2024.

Infrastructure and Capital

Finally, Table 8 provides details related to the Governor’s proposed transfers for infrastructure investments (capital construction and IT capital). The proposal intends to fully fund controlled maintenance level I projects, at a cost of \$85.6 million and also includes five capital construction projects and eleven IT capital projects. In addition to the amounts shown in Table 8, the request assumes an ongoing obligation of \$20.0 million for the National Western Stock Show Complex, creating a total obligation of \$200.4 million in FY 2025-26.⁵

| | General Fund Transfer |
|--|-----------------------|
| Controlled Maintenance Level I | \$85.6 |
| Capital Construction Projects (5) | \$62.1 |
| Capital Information Technology Projects (11) | \$32.7 |
| Total Transfers for Infrastructure | \$180.4 |

⁵ See Attachment 4 in the Governor’s submittal letter for a list of specific projects.

Please note that capital requests for state facilities (including higher education facilities) will be discussed in the Staff Budget Briefing document presented by Andrea Uhl on December 18, 2024, and capital requests for information technology projects will be discussed in more detail in Staff Budget Briefing document presented by Scott Thompson on December 16, 2024.

Appendix A: Mid-year Changes for FY 2024-25

FY 2024-25 Interim Supplemental *Operating* Requests Approved by the JBC

| Department | Request Title | Total Funds | FTE | General Fund | Cash Funds | Reappropriated Funds | Federal Funds |
|---------------|---|--------------------|------------|--------------------|-----------------|----------------------|---------------|
| Judicial | OADC Billing Site Development | \$895,000 | 0.0 | \$895,000 | \$0 | \$0 | \$0 |
| Judicial | Courts and Probation Virtual Court Mgt. System | 200,000 | 0.0 | 200,000 | 0 | 0 | 0 |
| Local Affairs | Senior Primary Residence Property Tax Reduction | 265,646 | 0.0 | 132,828 | 0 | 132,828 | 0 |
| Local Affairs | Firefighter Heart and Circulatory Malfunction Benefit | 300,000 | 0.0 | 0 | 0 | 300,000 | 0 |
| State | Reallocation to Maximize Federal Stimulus Funds | 54,000 | 0.0 | 0 | 54,000 | 0 | 0 |
| TOTAL | | \$1,714,656 | 0.0 | \$1,227,828 | \$54,000 | \$432,828 | \$0 |

Appendix B: Operating Appropriations Requested for FY 2025-26

| FY 2025-26 Operating Request by Department and Fund Source | | | | | | |
|--|-------------------------|-------------------------|-------------------------|------------------------|-------------------------|-----------------|
| Department | TOTAL | General Fund | Cash Funds | Reappropriated Funds | Federal Funds | FTE |
| Agriculture | \$78,230,155 | \$22,211,464 | \$48,702,324 | \$3,320,563 | \$3,995,804 | 332 |
| Corrections | 1,214,516,591 | 1,118,400,163 | 64,332,101 | 28,443,324 | 3,341,003 | 6,436 |
| Early Childhood | 781,307,693 | 301,915,923 | 276,404,825 | 20,949,659 | 182,037,286 | 244 |
| Education | 7,558,090,924 | 4,641,790,979 | 1,990,029,843 | 55,131,843 | 871,138,259 | 749 |
| Governor | 550,660,188 | 54,420,838 | 98,071,665 | 389,269,795 | 8,897,890 | 1,289 |
| Health Care Policy and Financing | 17,397,096,105 | 5,410,393,152 | 1,956,787,771 | 118,914,926 | 9,911,000,256 | 845 |
| Higher Education | 6,202,112,031 | 1,625,664,465 | 3,294,068,551 | 1,255,623,455 | 26,755,560 | 27,324 |
| Human Services | 2,618,238,736 | 1,316,100,426 | 450,495,351 | 236,147,121 | 615,495,838 | 5,534 |
| Judicial | 1,188,365,594 | 916,339,942 | 204,390,066 | 63,210,586 | 4,425,000 | 5,744 |
| Labor and Employment | 507,798,531 | 36,519,754 | 224,287,381 | 24,971,494 | 222,019,902 | 1,744 |
| Law | 153,312,394 | 28,152,965 | 25,581,958 | 95,612,026 | 3,965,445 | 661 |
| Legislative Department | 84,632,436 | 82,829,084 | 90,000 | 1,713,352 | 0 | 450 |
| Local Affairs | 385,952,684 | 74,460,446 | 168,724,053 | 17,744,842 | 125,023,343 | 251 |
| Military and Veterans Affairs | 150,545,601 | 18,053,241 | 2,340,167 | 26,042 | 130,126,151 | 2,277 |
| Natural Resources | 470,284,378 | 60,319,780 | 357,730,226 | 9,623,337 | 42,611,035 | 1,809 |
| Personnel | 295,476,667 | 38,422,548 | 18,015,906 | 239,038,213 | 0 | 502 |
| Public Health and Environment | 887,787,024 | 142,761,380 | 340,695,441 | 77,075,055 | 327,255,148 | 1,853 |
| Public Safety | 767,714,723 | 289,056,477 | 316,244,466 | 92,790,393 | 69,623,387 | 2,391 |
| Regulatory Agencies | 143,981,501 | 3,745,596 | 130,046,762 | 8,185,972 | 2,003,171 | 731 |
| Revenue | 553,757,998 | 164,216,862 | 379,242,971 | 9,446,033 | 852,132 | 1,825 |
| State | 48,060,857 | 4,254 | 48,056,603 | 0 | 0 | 174 |
| Transportation | 2,161,269,721 | 0 | 1,340,052,204 | 5,181,756 | 816,035,761 | 3,329 |
| Treasury | 945,225,414 | 455,490,457 | 406,788,131 | 82,946,826 | 0 | 71 |
| Operating Total | \$45,144,417,947 | \$16,801,270,196 | \$12,141,178,767 | \$2,835,366,613 | \$13,366,602,371 | \$66,563 |