



The Bell Policy Center

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1905 Sherman St., Suite 900, Denver, Colo. 80203 • 303-297-0456

www.thebell.org

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Colorado's state budget – the hits just keep coming

By Rich Jones
Director of policy and research
jones@thebell.org

State revenues will fall about \$250 million short of appropriations for the fiscal year that ends next week, according testimony today by state economists before the Joint Budget Committee. Estimates from the economists are worse than their projections in March and show that the state's economy was weaker than anticipated in the second quarter.

To balance the budget, money will be transferred from cash funds and the reserve on June 30. As a result, there is no immediate need for the legislature to convene in a special session. However, these transfers will be repaid on July 1, pushing this year's shortfall into next year.

Including the \$250 million from this year, Legislative Council economists project a \$384 million shortfall for fiscal year 2009-10. The governor's economists project a smaller \$81.8 million shortfall, which also includes the \$250 million carried over from this year.

Individual income taxes dropped more than expected in the last three months, accounting for most of the difference from March's projections. Sales taxes were also down due to the continued decline in sales of automobiles and other big ticket items such as furniture, electronics and appliances.

General Fund revenues for fiscal year 2008-09 will drop by about \$1 billion, or almost 14 percent, from the previous year, according to economists from both offices.

Looking ahead to fiscal year 2009-10, Legislative Council economists see slow growth and more pain for the state budget. The governor's economists are a bit more optimistic and project stronger economic growth.

Table 1 shows projection from both offices for gross General Fund revenues

through fiscal year 2001-12. The major difference is fiscal year 2009-10, when the Office of State Planning and Budgeting sees much stronger economic growth than the Legislative Council.

Table 1
Gross General Fund Revenue Estimates (in millions), June 2009

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12
OSPB	\$7,743	\$6,689	\$7,160	\$7,625	\$8,249
\$ Change		(\$1,054)	\$471	\$465	\$624
% Change		-13.6%	7.0%	6.5%	8.2%
Legislative Council	\$7,743	\$6,681	\$6,766	\$7,229	\$7,814
\$ Change		(\$1,062)	\$85	\$463	\$585
% Change		-13.7%	1.3%	6.8%	8.1%

To estimate whether General Funds will be sufficient to cover future appropriations, the Legislative Council staff extended fiscal year 2008-09 appropriations and added in estimates for obligations such as the homestead property tax exemption and a 4 percent statutory reserve that will return in future years. They did not adjust appropriations to cover additional caseloads or inflation.

Based on this analysis, they project an accumulated shortfall to total \$838 million through fiscal year 2011-12. This assumes the shortfall in each year is covered with one-time funds and carried into the next year.

Because there is no allowance for growth in caseloads or inflation, the staff acknowledged this was probably a conservative estimate.

As part of the *Looking Forward* project, researchers from the Bell, the Colorado Fiscal Policy Institute and the Colorado Children's Campaign calculated the appropriations needed to maintain 2007-08 levels of service through fiscal year 2011-12. These projections include adjustments for increased caseloads and changes in inflation for K-12 and higher education spending.

Using the Legislative Council's assumptions that shortfalls are covered by one-time money, the accumulated shortfall based on our *Looking Forward* projections would total \$1.9 billion through fiscal year 2011-12. This represents more than 20 percent of total estimated appropriations for fiscal year 2011-12, or a little more than the total needed to maintain health care services in that year.

Clearly, state government faces huge challenges just maintaining current levels of service in future years, even when stronger economic growth generates additional revenues. Finding a long-term solution to our budget problems requires a careful

analysis of our revenues, the services we demand and what we are willing to pay for them.