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State Budget Update

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Overview of Budget Process

- In preparing the budget for the state each year, the General Assembly receives recommendations from its permanent fiscal and budget review agency, the Joint Budget Committee (JBC).
- The JBC meets year-round, holds a number of meetings and considers a range of documents to help prepare the budget recommendations for the General Assembly.
- During these meetings, the JBC considers requests and recommendations from state agencies, the Governor's Office of State Planning and Budgeting (OSPB), and JBC Staff.
- The JBC uses Economic Revenue Forecasts to prepare the budget (also known as the Long Bill) and introduce it in the General Assembly.



The Budget Process for FY 2020-21

- Though the budget was nearly ready to be introduced in 2020, due to COVID-19, state revenue dropped *significantly* and left the JBC with the daunting task of cutting the FY 2020-21 budget by \$3.5 Billion.
- In early May, the JBC began meeting again with all new recommendations from JBC Staff and OSPB.
- The Long Bill and roughly 50 orbital bills (bills needed to balance the budget) were introduced in late May.
- The largest reductions in the budget were K-12, Higher Education, and State Employee Salaries and Benefits, but most programs were reduced in some way.
- Democrats struck a deal with the governor on HB 20-1420 to revoke four tax breaks and generate \$179 million in new revenue needed to help fill the gap in the budget. It was still short of what was needed.
- The Budget Stabilization Factor — which represents how much the state is underfunding K-12 education — rose to \$1.2 billion. Some cuts were offset with Federal CARES Act dollars.



CML Advocacy in Budget Process

- The CML Advocacy Team sent a letter to the Legislative Joint Budget Committee (JBC) pointing to four key areas of funding sources for municipalities.
 - **Housing**
 - **Water/Wastewater Infrastructure**
 - **Energy Impact Funds**
 - **Transportation.**
- CML asked that the JBC consider how critical these programs are for municipalities when deciding on potential reductions and cuts.
- It should be noted that these were not the only areas of the budget that CML staff advocated.



Housing

CML Request:

- JBC staff recommended diverting the transfer created by HB 19-1322 (Expand Supply Affordable Housing) from affordable housing to the general fund.
- That funding represented a significant moment when the General Assembly prioritized affordable housing funding.
- CML requested that if the JBC must transfer these dollars, that it be temporary and perhaps return to the intent of HB 20-1322 by 2022-23.

Outcome:

- JBC approved legislation to temporarily pause the transfers until FY 2022-23.
- The legislation was HB 20-1370 and subsequently approved by the General Assembly.
- The intent of HB 19-1322 was kept in tact.



Water/Wastewater Infrastructure

CML Request:

- Protect the Colorado Water Conservation Board (CWCB) construction fund and the Severance Tax Perpetual Base Fund to provide direct support for water projects throughout the state through loans, many of which directly support critical municipal water projects.
- Municipalities have utilized these funds in the past to support important projects such as dam rehabilitation and improvement, water storage improvement, flood control projects, water supply projects, and watershed improvement projects.

Outcome:

- No money was taken from the Colorado Water Conservation Board construction fund.
- \$45 million was swept from the Severance Tax Perpetual Base Fund into the general fund.



Energy Impact Funds

CML Request:

- CML was concerned that JBC staff would recommend a transfer of funds from the Local Government Severance Tax Fund and the Local Government Mineral Impact Fund to the General Fund.
- The JBC has swept these funds in the past.
- The Energy and Mineral Impact Fund has consistently provided rural and resource scarce municipalities an opportunity to fund critical projects. In all cases, these projects are crucial to the livability and resiliency of the city or town. Often these projects include water plant expansions, road improvements, master and comprehensive planning updates, and medical building expansions.
- CML asked the JBC to continue to support rural municipalities by not sweeping this much needed funding.

Outcome:

- The JBC was presented with a staggering severance tax forecast, indicating that revenues in the Local Government and Mineral Energy Impact Fund will decline from \$128 million in FY 2018-19 to \$70 million in FY 2019-20, and finally, \$12 million in FY 2020-21.
- With such a significant decline in severance tax for local governments, JBC staff did not recommend sweeping these funds.
- Rather, staff suggested that as local governments continue to struggle, these grant dollars remain available.



Transportation Funding

CML Request:

- The absence of a sustainable funding source for transportation has reached a crisis point in Colorado.
- Any General Fund cuts to transportation will require CDOT to backfill the lost revenue with gas tax revenue that has already realized catastrophic declines due to the COVID-19 pandemic.
- If the JBC and General Assembly decided to suspend the \$50 million annual general fund transfer to service its SB 17-267 (Concerning Sustainability of Rural Colorado) debt payments, CML vigorously requested this be a temporary action for the 2020-21 fiscal year only.
- It should be noted that this funding is state funding and does not impact local transportation revenue.

Outcome:

- HB 20-1376 was approved by the JBC and subsequently passed by the General Assembly.
- The act suspended the \$50 million transfers and moved the TRANs bond question to the 2021 ballot.



Other Programs

CML also advocated to the JBC regarding other programs that benefit municipalities and followed the potential changes to areas such as pensions and tourism.

- Municipal Court Defense Counsel Reimbursement
- Peace Officer Mental Health Grant Program
- Limited Gaming Funding
- Public Employees Retirement Association (PERA)
- Programs to Promote Tourism



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Municipal Court Defense Counsel Reimbursement

- Created by HB 18-1353 to provide funding to municipalities in order to comply with HB 16-1309 which requires defense counsel at first appearance in municipal court.
- Nearly \$2 million has been distributed annually.
- JBC Staff recommended reducing the fund by \$977,145 or entirely if additional cuts were needed.
- CML sent a joint letter with the Colorado Municipal Judges Association to advocate for the program.
- The JBC ultimately approved the reduction in funding and did not eliminate the program entirely.



Peace Officer Mental Health Funding

- Created by HB 17-1215 established the Peace Officers Mental Health Support Grant Program to provide grants to county sheriffs' offices and municipal police departments for the purpose of helping these agencies access the services of mental health professionals.
- JBC Staff recommended reducing the fund by \$1 million or entirely if additional cuts were needed.
- The program was ultimately kept intact and not reduced.



Limited Gaming Funding

- HB20-1399- Suspend Limited Gaming Tax Transfers to Cash Funds
 - Suspends, for 2 years, the statute which automatically allocates revenue derived from the tax on limited gaming activity to various cash funds, including the local government limited gaming impact fund.
 - The bill also appropriates \$1,875,000 to the local government limited gaming impact fund for 2020-2021.
- HB20-1400 Temporary Modification of Limited Tax Revenue Allocation
 - Temporarily modifies the way limited gaming tax revenues are allocated between the limited gaming fund and the extended limited gaming fund in order to more equitably address recovery in the years immediately following the pandemic.



Public Employees Retirement Association

- Initially, JBC staff made several recommendations regarding PERA to the Committee.
 1. Suspend PERA Direct Distribution
 2. Postpone PERA Employer Automatic Increase Adjustments of 0.5 percent (Applicable to LGD)
 3. Postpone PERA Employee Contribution Structural Increase of 0.75 percent
 4. Shift 2.5 Percent of PERA Employer Contribution to Employees Suspend PERA Direct Distribution
 5. Reduce AED and SAED rates by 2.5 percent
- Ultimately, the JBC only voted to move forward with ONE recommendation and that was to suspend the PERA direct distribution of \$225 million mandated by HB 18-200 for FY 20/21. That will not affect the Local Government Division



Programs to Promote Tourism

- The Colorado Tourism Office, responsible for promoting Colorado to domestic and international travelers saw a \$7.5 million cut in funding, which equals a 30% reduction from last year.
- Colorado's film incentives and Film Office, designed to support Colorado's film industry saw its budget cut by 52% from \$1.25 million to a total of \$600 thousand compared to last year.



Senior Homestead/Disabled Veterans Exemptions

- During the budget process, the JBC and General Assembly were able to balance the budget without cutting the Senior Homestead Exemption and Disabled Veterans Exemption Act.



Future State Budgets

- After balancing FY 2020-21, the General Fund reserve is just 3.07% for the current fiscal year and 2.86% for the one that begins July 1 — down from the prior level of 7.25%.
- That leaves little room for budget writers especially since it is expected that revenues will continue to decrease.
- The legislature approved two ballot questions that will help balance the budget in the future, if voters approve them.
- The first is a referendum on whether to repeal the Gallagher Amendment which affects many local government budgets, including school districts which directly impacts the education funding the state must provide.
- The second is a measure to increase tobacco taxes with the first dollars going toward the state budget before being earmarked for early childhood education in the future.



Contact Us!

Please contact Meghan Dollar with additional questions on this presentation.

For budget questions regarding Transportation and Tourism, contact Morgan Cullen.

Contact Heather Stauffer regarding Water and Limited Gaming.

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