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## Recovery Act preventing worse budget cuts

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The tremendous budget challenge facing Colorado lawmakers would be much worse without the help of \$2.8 billion to Colorado from the American Recovery and Reinvestment Act, more commonly known as The Recovery Act. The Recovery Act provided a remarkable influx of cash to help offset the brutal combination of declining state revenues and rising demand for state services.

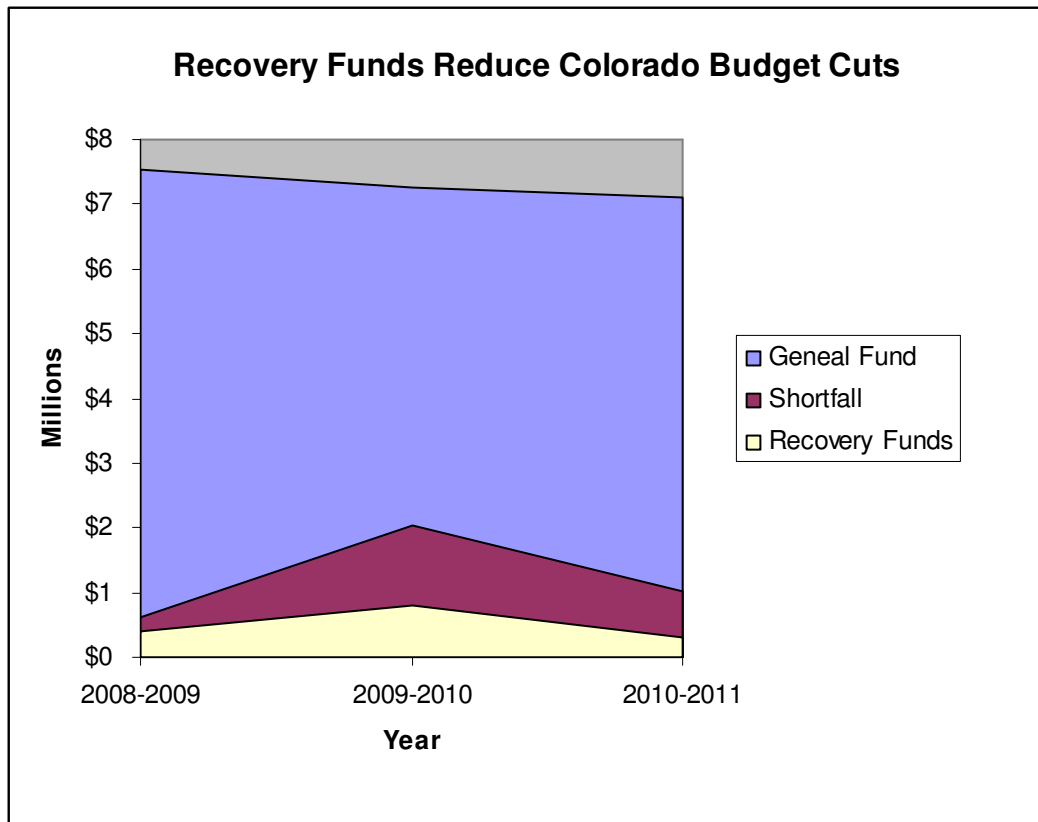
More than half of the Recovery Act money coming to Colorado, \$1.5 billion, is being used to mitigate budget shortfalls over three fiscal years ending in June 2011. More than half of that — \$813.7 million — is helping state lawmakers this week as they balance the budget for fiscal year 2009-10. Most of that money has gone to Medicaid and colleges and universities, and as a result, cuts have been minimized in other areas of the budget.

The \$813.7 million Recovery Act funds used to fill the shortfall is more than the General Fund contribution to all departments in Colorado government except education and health care. **The Recovery Act money this year is greater than the combined general fund spending on 14 of the 19 state departments that get general fund money.**

Without the Recovery Act money, any number of state services, or entire agencies, would have been either eliminated or dramatically scaled backed.

Lawmakers began making changes to the 2009-10 budget this week to close a shortfall Gov. Bill Ritter pegged at a \$2.04 billion in November. Later this month, the General Assembly will begin tinkering with Gov. Ritter's \$19.3 billion budget proposal for 2010-11, which opens with a projected \$1.02 billion General Fund shortfall, according to a Nov. 10, 2009, report from the Governor's Office of State Planning and Budgeting.

The \$1.5 billion in flexible funding from The Recovery Act has helped state lawmakers decide how to balance three consecutive budgets as state sales and income taxes failed to generate enough revenue to meet spending demands. The flexible spending portion of the Recovery Act came to the state in three chunks of money: an Enhanced Federal Medical Assistance Percentage (FMAP) rate for Medicaid, a so-called State Fiscal Stabilization Fund for education, and another stabilization fund for any other purpose, which has largely been used for corrections.



The Enhanced FMAP provides a larger than usual federal match for state spending on Medicaid. The Enhanced FMAP rate is based on unemployment, assuming that as unemployment rises the number of people seeking health care through Medicaid will also rise. The number of people enrolled in Medicaid is indeed growing. But if the state's unemployment rate drops lower than has been projected, then the state could receive less money through the Enhanced FMAP program than currently anticipated. The Enhanced FMAP provided money to cover Medicaid expenses retroactively to October 2008 and will run through December 2010, with the follow totals for each year:

- \$239.7 in 2008-09
- \$371.7 in 2009-10
- \$185.9 in 2010-11

Congress is considering extending the Enhanced FMAP rate beyond fall 2010 so the amount the state gets in 2010-11 could grow.

Even as the federal government is providing \$748.5 million to help cover the rising cost of Medicaid, the state is still making cuts to portions of the entitlement program that the state controls. For example, the General Assembly is again considering reducing provider rates and delaying June payments to providers until July, which marks the start of the

next fiscal year. That would save \$188 million in the upcoming fiscal year but cause the Medicaid budget to start the next fiscal year out of balance.

Unlike most other states, Gov. Bill Ritter and state legislators plan to use all of the education stabilization money on higher education, deciding not to spend any on public schools even as the state is cutting K-12. The state plans to spend:

- \$151 million 2008-09.
- \$377 million in 2009-10.
- \$95 million in 2010-11.

In order to qualify for the money, the state is obligated to spend at least \$555 million on higher education in 2010-11, which will require the state to spend \$226 million, or 41 percent, more on higher education than it will this year.

The third pot of flexible funding is projected to provide \$138.1 million. Most of that, \$116 million, has been directed to Colorado's prisons to help cover the soaring cost of an ever increasing inmate population.

In addition to helping balance the Colorado's budget, The Recovery Act has provided more than \$1 billion the state steered into one-time projects to help relieve pent up demand for state services such as:

- \$404 million for 64 road construction projects.
- \$272 million for assistance for low-income and disabled students.
- \$103 million for transit projects.
- \$68 million to boost benefits for low-income people through the Temporary Aid to Needy Families program.
- \$65.7 million for 31 water projects.
- \$36.6 million for construction at seven airports.
- \$17.4 million for construction and renovation at 15 community health centers.

### **Balancing the budget requires a balanced solution.**

Even though the Recovery Act has mitigated the budget shortfall facing Colorado, it does not entirely close the gap. The Colorado Fiscal Policy Institute is urging lawmakers to consider a balanced solution for balancing the state's budget. Cuts have been the norm to solving the state's budget problems in recent years. And cuts will be a large part of how lawmakers balance the 2009-10 and 2010-11 budgets. But that should not be the only solution. It is time for lawmakers to look at the other side of the ledger as well — revenue. Gov. Ritter and the General Assembly are considering suspending or eliminating more than a dozen tax exemptions. That is a good start. But Congress needs to do more as well.

As things stand, federal aid to states is scheduled to end before state finances have fully recovered. The health care-related funding will expire Dec. 31, by which time Colorado will have used up most of the funding for education and other services. Colorado is

anticipated to still face high unemployment and huge deficits at that point. Congress needs to extend the Enhanced FMAP and the stabilization funds for states for at least six months to ease Colorado off of the budget cliff that awaits at the end

If Gov. Ritter's budget is adopted, in 2011 Colorado will be spending \$411 less per K-12 pupil than it did a year earlier (2009-10), \$887 less on each Medicaid patient than it did in 2005-06, and \$139 less on each student in a state university or college than it did in 2005-06. Not only will these cuts cost jobs, but they could jeopardize Colorado's fragile recovery.

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