



Issue Brief

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From the Colorado Fiscal Policy Institute

TABOR Had Nothing to Do With Colorado's Budget Situation?

Read On...

In a recent column, Dr. Nancy McCallin, Colorado's Director of the Governor's Office of State Planning and Budgeting (OSPB), contended that much erroneous information has made its way into the public sphere surrounding the state budget.¹ She reviews commonly held assertions and then argues that these assertions are false based on her reading of the facts.

Following is a response to that column. Each section below begins with the assertion in Dr. McCallin's brief, a brief summary of her position, and finally, information in response to provide the budget picture in context.

1. The State's budget was slashed nearly \$1.7 billion over the last two years.

Dr. McCallin's Position Dr. McCallin refers to the figures of \$869 million and \$850 million as the budget gaps that the Joint Budget Committee (JBC) dealt with for the FY 2002-03 and FY 2003-04 budgets, respectively. JBC's staff chief used these figures as measuring the extent of the budget gaps that had to be closed by legislative action in each of those 2 years. She states that the actual amount cut from the spending budget in FY 2002-03 was only \$236.2 million, and that a similar amount was cut in FY 2003-04, far below the aforementioned figures. The balance of the 2 years' gaps were made up by fund transfers, cash-financing certain formerly general fund operations, fee increases, and one-time accounting changes that pushed certain costs into the following year. She also states that some advocates are referring to "reduced spending increases" as if they were spending cuts.

COFPI's Response Dr. McCallin is correct that the dollar budgets of State programs fell by only about a third of the JBC's stated budget gaps in each of these 2 years. We said as much in COFPI papers in late 2002 and early 2003². The General Assembly staved off further spending cuts through the fund balance transfers, new or increased fees, and one-time accounting changes.

The issue with Dr. McCallin's conclusion, however, revolves around the nature of State programs and how their budgets are constructed. Five of the largest 6 general fund departments are highly caseload-driven: K-12 Education, Medicaid, Corrections, Human Services, and the Judicial department. It could also be argued that Higher Education's "caseload," student enrollment, is similarly caseload-driven. If the number of pupils, Medicaid- or TANF-eligible residents, court cases, or inmates grows compared with the prior year, then a static budget is in effect a budget cut if a current services budget is to be maintained. To assume otherwise is hiding the truth. In addition to considering caseload changes, it is reasonable to build in to a current

services budget any known cost factors such as medical inflation, which rose by 5% in 2002³. Static or reduced medical reimbursement rates also constitute a real program cut, if they result in reduced service provision or providers deciding to take fewer cases or drop the program. Each year, the JBC staff prepares a rough current-services budget growth factor as a way of providing JBC members with an estimate of the cost to the State of simply *maintaining the level of service delivery* that is in “current law.” This growth factor simply forecasts program costs, without changing any eligibility criteria and taking into account a conservative forecast of inflation in the specific existing services for which the State is responsible.

The current law growth factor for the FY 2003-04 budget was approximately \$500 million. This growth merely took into consideration the higher student population in K-12, Medicaid caseload and medical inflation, the next year’s projected prison population, etc.

So to argue that growth in the budget below that \$500 million is “merely a lower rate of growth” hides the reality that if the budget increases by less than \$500 million, the level of services provided to existing program recipients will be cut.

Given the severity of the revenue reduction, as stated by Dr. McCallin, the Legislative and Executive branches did their best to minimize the extent of program cuts. Both deserve acknowledgement for that. But this does not hide the real program cuts that did occur.

2. *The State’s cash flow position is in such bad shape that it may not be able to pay its bills.*

Dr. McCallin’s Position Dr. McCallin states that the lowest that the State’s cash position will fall to is to \$953 million in mid-2004.

COFPI’s Response Over the course of any fiscal year (July 1 – June 30), the pattern of spending and the pattern of revenue are quite different from each other. A large portion of the State’s income tax receipts arrive in the second half of the fiscal year, whereas monthly spending is much more steady beginning in the summer months, early in the fiscal year. Thus, it is a normal and routine practice for the general fund to internally borrow money from other funds and then pay these funds back by fiscal year-end, when income tax payments are received by the State.

Since during FY 2002-03, significant balances of these various other funds already had been transferred or borrowed by the general fund in order to maintain ongoing services, many of the dollars that traditionally had been available for cash-flow purposes were projected by the State Treasurer to be unavailable for that fiscal year. What complicates this question is that by law certain funds are off-limits to the internal cash-flow borrowing described above. Thus, there may be cash balances on the books, but they cannot be used to pay general fund bills.

Thus, the context within which this statement has been made leads to the conclusion that while the State’s cash balances may be \$953 million or higher, less than a year ago the State Treasurer had reasons to be concerned about the trend lines of revenue and spending, coupled with the historically low rates of cash on hand, so as to request that the JBC further lower its spending

target by \$200 million. While this amount was ultimately not needed because revenues stabilized and spending cuts and other actions were taken, it was not entirely false to describe the State's cash position as being in bad shape within the past year. Anyone who witnessed the Treasurer's cash-flow presentation to the JBC last spring would agree.

More recently, on November 12, 2003, the JBC reviewed cash flow projections through June 2005, prepared by Legislative Council⁴. Those projections show that the projected low point in total cash resources will occur in March 2005, in the amount of \$623.6 million. Further, and of greater concern, during the entirety of FY 2004-05, general fund cash resources never enter positive territory—meaning that the general fund is projected to borrow from non-general funds for the entire 12 months of the fiscal year. Finally, the trend of cash balances for both the general fund and “borrowable” non-general funds is dramatically downward, a trend that appears unsustainable.

3. *The State has decimated all services to children, the poor, and the vulnerable.*

Dr. McCallin's Position Dr. McCallin's response to this allegation is in part that Medicaid grew by 5.6%, K-12 education grew by 4.5%, disability services by 6.1%, child welfare by 4.3%, and mental health by 2.9%. She further points out that Higher Education in particular received additional revenue in the form of tuition increases, such that total Higher Education funding rose by 1.1%. She also contrasts these changes with other states where people were dropped from Medicaid (caseloads fell in Massachusetts by 60,000, for example). State layoffs in Colorado were a mere 500 vs. 50,000 in Iowa.

COFPI's Response Dr. McCallin is correct in describing Colorado's response to the budget situation as doing virtually everything possible to minimize reductions in safety-net services while conversely bringing capital construction projects to virtually a complete halt. It should be pointed out, however, that the General Assembly declined to tap a number of revenue sources such as a modest background check fee for firearm purchases. Advocates have strenuously objected to the specific program cuts that were enacted. Some of these are as follows:

- Non-emergency Medicaid Transportation was cut by approximately 2/3, leaving many Medicaid participants unable to get back and forth to necessary medical care
- Medicaid services legal immigrants, including pre-natal care
- Affordable housing loans and grants
- Low-income preschool slots were cut in half
- Aid to the Needy Disabled
- Mental health services
- Enrollment cap in the Children's Basic Health Plan (CHP+) and the elimination of the prenatal benefit in CHP+

The difficulty in comparing Colorado’s safety net cuts with those of other states is that Colorado already had one of the leanest Medicaid programs in the nation. For the most part, Colorado covers only the minimum required for participation in the Medicaid program; therefore, when Colorado cuts, its cuts are at the “bare bones”—unlike other states which during good economic times shared their prosperity by expanding eligibility for public programs. Examples include Massachusetts which finances kids health care in families up to 400% of the federal poverty level; Nebraska which runs a medically needy program for non-Medicaid eligible persons up to 55% of poverty; and Missouri which covers children up to 300% of poverty. In contrast, Colorado covers kids in Medicaid and CHP+ up to 185% of poverty and pregnant women up to 133% of poverty, and has no medically needy program.⁵

In addition, many of these cuts simply do not make good fiscal sense. Eliminating prenatal care means more high risk and high cost births; inadequate funding for mental health services means that more people are seen on an emergency basis or in the criminal justice system. Colorado has forfeited millions of federal dollars by reducing eligibility for its medical program, and in many instances will provide the same services at twice the cost (the state’s Medicaid expenditure dollars are matched one-for-one by the federal government).

4. The Taxpayer Bill of Rights is the root cause of the state’s budget shortfall.

Dr. McCallin’s Position Dr. McCallin states that it was the economic recession and the 16% revenue shortfall that withdrew available funds from the budget, not TABOR. To date, TABOR has not required the state to refund any money after any post-recession ratcheting. She goes so far as to state, “TABOR has had no impact on the State’s budget situation during the past two years.”

COFPI’s Response The problem with her position is that it is cast so narrowly as to hide the actual effects that TABOR has had in bringing Colorado to its current budget situation.

First, between 1997 and 2002, the state refunded \$3.2 billion that could have been available during the crisis period for state services, because during those 5 years, revenues exceeded the TABOR formula of inflation plus population. It should be noted that ratcheting of the revenue base *did* occur between 1992 and 1997 because in those years, actual revenues did not even meet the TABOR formula—and those years thus resulted in the 1997 budgeting base being below the trend line of inflation and population from 1992 forward.

Second, because major categories of fee-type revenue fall within the TABOR revenue caps, including college tuition and unemployment insurance premiums, after the adoption of TABOR, the State has been forced to maintain artificially low tuition levels for its state university system (because increasing tuition would simply result in a dollar-for-dollar tax refund during surplus years 1997-2001). The result has been serious under- funding for Higher Education.

Third, because of TABOR, the actions that the General Assembly and the Governor took to lower income and sales tax rates in 1999 and 2000 permanently lowered the annual stream of TABOR revenues by \$460 to \$550 million per year. This dollar amount would have continued to

flow into the State budget after the recession hit, and would have been available in the crisis years to keep State services going.

Finally, general fund forecasts by the executive and legislative branches indicate that in the FY 2004-05 or FY 2005-06 budgets, the State will begin refunding ever-increasing amounts, for a total of \$981.8 million to \$1.26 billion between 2004 and 2009. The TABOR base has indeed ratcheted down; the refunds are just around the corner, while at the same time current state forecasts show required (to satisfy TABOR) additional budget cuts of \$640.1 million between 2004 and 2009 according to Legislative Council.^{6 7 8} Because the State will have to refund money again once revenues reach the newly reduced TABOR caps, it is highly unlikely that the programs cut during 2001- 2004 will ever be restored, especially with further cuts looming. It is patently false to say that TABOR has no bearing on the budget situation that Colorado finds itself in today.

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¹ Nancy McCallin, "The truth about Colorado's budget," *The Denver Post* (October 26, 2003): 4E.

² Jim Zelenski, "Issue Brief: The Joint Budget Committee's Plan to Balance the FY 02-03 Budget," Colorado Fiscal Policy Institute (February 4, 2003).

³ Monthly Labor Review, April 2003

⁴ John Ziegler, "Joint Budget Committee Staff Briefing: Overview of FY 2004-05 Budget," State of Colorado Joint Budget Committee (November 12, 2003).

⁵ Kaiser Family Foundation, "Kaiser Family Foundation State Health Facts Online: 50 State Comparisons."

⁶ The Governor's Office of State Planning and Budgeting, "General Fund Overview," *Colorado Economic Perspective*, State of Colorado Governor's Office of State Planning and Budgeting (September 20, 2003): Table 3, p. 5.

⁷ Colorado Legislative Council, "General Fund Overview," *Focus Colorado, Economic and Revenue Forecast, 2003-2009*: Table 2, p. 16.

⁸ John Ziegler, "Joint Budget Committee Staff Briefing: Overview of FY 2004-05 Budget," State of Colorado Joint Budget Committee (November 12, 2003).