



**July 2, 2020**

**To:** Council Finance and Governance Committee, City and County of Denver

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**Subject:** 2020 Legislative Session Budget Balancing Highlights

### **Summary**

The work of the Joint Budget Committee (JBC) begins in November after the Governor delivers the annual budget request and prior to the convening of the legislative session in January. The Committee meets to craft the budget during a typical six-month period. Before the pandemic forced the closure of the Legislature, the JBC was very close to balancing and introducing the FY 2020-21 budget.

The JBC received the quarterly March revenue forecast on March 16 which anticipated General Fund revenues to be \$864 to \$991 million lower than in September 2019. That forecast provided an indication to the JBC that they would have to keep the FY 2020-21 budget flat at 2019-20 levels. Subsequently, the budget was put on hold for over a month while the legislature adjourned for a brief time due to COVID-19.

In early May, the JBC came back to work to balance the budget. A new forecast was very quickly released on May 12, to give the Committee a more accurate reflection of where things really stood. At that time, state forecasters informed the Committee the State had a \$3.3 billion shortfall that the JBC needed to close. This meant that they'd have to go beyond flat funding and proceed to cut as deeply as possible.

The JBC members and staff quickly worked to fill that hole and write an entirely new budget. They completed six months of work in about four weeks. Due to the public health threat, lobbyists, as well as many JBC analysts participated remotely. It was absolutely grueling and a very emotional time for those six members as they cut funding for many of the state's needy and vulnerable populations.

The Committee prioritized a few key areas for which they desperately tried to spare from cuts – K-12 education and human services. Funding for education was ultimately cut by more than \$700 million due to the fact that it is simply too great a portion of the State budget to be spared. The Senior Homestead Exemption was also on the chopping block but due to immense controversy (mostly from Republicans) was ultimately spared.

The main budget bill, HB20-1360, was signed into law on June 22, 2020. The Policy Matters team is very thankful for the JBC's support and protection of Denver's human services priorities which include child welfare and child care assistance. We'd also like to recognize the staff of the JBC who were very thoughtful in their recommendations to the Committee and who did their very best to protect funding for the state's most vulnerable populations.

#### **Long bill at a glance**

- **Total Funds:** \$31.71 billion total funds, down 4 percent from the \$33.03 billion budget in the current 2019-20 fiscal year, which ends June 30.
- **General Fund:** \$10.87 billion, down 9.3 percent from this year's \$11.98 billion. The General Fund is the state's main account, supported primarily by income and sales taxes.
- **Cash Funds:** \$9.53 billion, down .7 percent from \$9.46 billion this year.
- **Federal funds:** \$9.77 billion, up 3.2 percent from the current year's \$9.47 billion.

#### **Budget Balancing at a glance**

- **Forecast:** The Office of State Planning and Budgeting (OSPB) forecast was used as the basis for balancing. That forecast anticipates \$437.5 million more General Fund revenue to be available in FY 2020-21.
- **The General Fund Reserve:** In order to balance the budget at session's end, as the state constitution requires, the legislature lowered the reserve to 3.84 percent of General Fund spending in HB20-1383. The reserve was set at 7.25 percent in recent years. The dollar amount in the reserve will depend on actual appropriations but is estimated at about \$437.5 million in FY 2020-21.
- **General Fund Transfers:** The budget package consists of a number of bills and transfers to the General Fund. They amount to about \$304.5 million in FY 2020-21.
- **Reducing Appropriations:** The budget package contains several bills that make statutory changes to reduce General Fund appropriations in FY 2020-21 totaling about \$430.4 million.

#### **Colorado Department of Human Services at a glance**

- **Total Funds:** \$2.27 billion total funds (down 1 percent from prior year)
- **General Fund:** \$968.08 million General Fund (down 4.4 percent from prior year)
- **Cash Funds:** \$415.96 million (down 6.7 percent)
- **Federal Funds:** \$680.51 million (8.2 percent increase)

Policy Matters was successful in advocating for flat funding as opposed to cuts (in most cases) in the following program areas which are priority budget issues for the City and County of Denver's Department of Human Services:

### **Child Welfare Programs**

The line items under this division took very minimal hits. The long bill includes a net increase of \$615,670 total funds including a decrease of \$10,374,725 General Fund and a decrease of 1 FTE. The JBC staff got clever here and recommended refinancing tools to help maintain services for Child Welfare. So, although General Fund was reduced, it was replaced with federal funds. The following outlines the big line items in this division:

The Committee rejected the staff recommendation to refinance Child Welfare Services Funding with a county match which would've put more burden on already cash strapped counties.

The JBC did refinance Child Welfare Services with federal dollars from the Temporary Assistance to Needy Families (TANF) reserve in the following amounts:

- Refinance \$1,638,408 General Fund in the Child Welfare Services line item with federal Temporary Assistance to Needy Families funds in FY 2019-20.
- Refinance \$11,338,408 General Fund in the Child Welfare Services line item with federal Temporary Assistance to Needy Families funds in FY 2020-21.
- Created a new line item in the Office of Self Sufficiency entitled County Block Grant Support Fund. The following appropriations were made to this new line:
  - \$1,500,000 from federal Temporary Assistance to Needy Families funds in FY 2019-20, and
  - \$1,500,000 from federal Temporary Assistance to Needy Families funds in FY 2020-21.

*Child Welfare Caseworkers* – The Committee reversed previous action to fund Phase 6 County Child Welfare Staffing and will not move forward with new FTE this year. A footnote was added during House deliberations on the Long Bill requiring the CDHS to restore funding for county child welfare workers after the pandemic.

*Child Welfare Provider Rates* – The Committee reversed previous action they took early in the session to fund the Phase 3 Child Welfare Provider Rate Increase. This would've cost approximately \$5 million General Fund. Takes the state back to 19/20 levels.

### **Mitigation of Colorado Child Care Assistance Program (CCCAP) Waitlists**

The Joint Budget Committee did not make cuts to this program but instead, refinanced the CCCAP with Child Care Development Fund (CCDF) dollars. The appropriation includes \$6.8 million total funds, including \$1.8 million General Fund, \$1.8 million cash funds and \$3.2 million federal funds for maintenance of effort requirements for the CCCAP.

## **County Administration**

This program provides funding for counties to administer the Supplemental Nutrition Assistance Program (SNAP) and a variety of other programs. Funding for County Administration will remain unchanged at FY 2019-20 levels: \$87.6 million total funds including \$29.4 million General Fund.

## **Community Provider Rates**

The Joint Budget Committee approved a 1.0 percent across-the-board cut paid to community providers. For the Colorado Department of Human Services (CDHS), this amounts to a decrease of \$8.7 million total funds including \$5.35 million General Fund.

## **Other Human Services Programs**

- Child Support Reimbursements – The long bill includes an appropriation of \$269,361 General fund to reimburse counties for the full pass through.
- Family First Act & CO TRAILS – Funding was maintained for the modernization of CO TRAILS but there were cuts with regards to the implementation of Family First due to the fact that the CDHS delayed implementation until the fall. The cuts amount to \$633,510 GF in FY 2019-20 and \$1.5m GF in FY 2020-21 and would've funded FTE within the CDHS.
- Joint Agency Interoperability Project enables the State and counties to use systems and applications to exchange information to better coordinate services provided to children and families. This line includes \$4.1 million total funds, including \$1.56 General Fund for the operations and maintenance of the project. It did take a cut in the Division of Child Welfare by \$6,417 federal funds.
- The Subsidized Training & Employment program was appropriated \$2.6 million Federal Funds (TANF) early in the session and that decision was later reversed. Policy Matters and Denver Human Services advocated for the JBC to use caution when spending TANF dollars. When COVID hit, they were forced to pare back federal funding for this program which was a welcome relief.
- Collaborative Management Programs (SB91-094) which are prevention type programs - were cut by \$1 million in the Long Bill, but funding was restored in House and Senate amendments for these important programs.

## **Miscellaneous Programs**

The Mayor's Office and Council Members have expressed interest in other areas of the state budget highlighted below.

*Transportation* - HB20-1376 cancels the \$50 million scheduled transfers from the General Fund to the State Highway Fund for FY 2020-21 and FY 2021-22. It also repeals the statutory requirement for the referral of a 2020 ballot initiative for Transportation Revenue Anticipation Notes and changes the referral date to 2021.

### *Housing –*

- HB20-1370 delays for two years conditional transfers of up to \$30 million from the Unclaimed Property Trust Fund to the Housing Development Grant Fund. Transfers will be possible from FY 2022-23 through FY 2024-25. Policy Matters along with other housing advocates lobbied to delay the transfers rather than eliminate them entirely.
- The JBC reduced grants by the Eviction Legal Defense Fund by \$150,000 General Fund. The total reduction is \$300,000 because the appropriation into the fund is also reduced by \$150,000.
- The Vendor Fee was discussed, and staff recommended transfers, but we were successful in lobbying for the revenue stream to be spared.

*Film Incentives –* The long bill includes a temporary reduction of \$500,000 for the Office of Film, Television and Media.

### **Tax Policy & Referred Measures**

The legislature set in motion four tax policy changes that could be significant in the future. The first of which is HB20-1427 Cigarette Tobacco and Nicotine Products Tax (Caraveo & McCluskie/Fields & Moreno). A referendum to voters, this one will raise taxes on nicotine products. The measure refers a question to Colorado voters for the November 2020 ballot to raise taxes on cigarettes and start taxing other products that contain nicotine, including vaping products.

If passed, it will bring in \$83 million in the next fiscal year and \$168 million the following year. The revenue earned from the new tax will go to a variety of different needs including K12 education, affordable housing, tobacco and nicotine prevention, education and cessation programs and preschool programs, and back fill for state. Approximately \$11.166 million will be diverted to the Housing Development Grant Fund in Fiscal Years 20/21, 21/22 and 22/23. And \$500,000 will be allocated to the Eviction Legal Defense Fund during those same fiscal years.

Here are the other tax policy measures:

- A measure to exempt Colorado's tax code from recent federal tax cuts, thereby raising revenue needed to balance the budget (HB20-1420).
- The proposal to voters for repeal of the Gallagher Amendment; doing so would ease the distortions in the current property tax system (SCR20-001).
- A change in school district finance law that could allow future legislatures to raise property taxes (HB 20-1218).

### **Looking ahead**

Most observers expect that the 2021 session will face even harder budget decisions, given that recession effects usually last for two or three years and that most of the

transfers and other tricks used to balance the 2020-21 budget won't be available next year.

There is also the added component of CARES Act federal funding. Earlier this year, the Governor disseminated \$1.2 billion from the third federal stimulus package. We are anticipating a fourth package to come in late August or early September with additional state dollars. The legislature wanted to weigh in on how this money is spent, so they passed HB20-1426: Limit Emergency Spending and Authorize Additional Appropriation, which extends the repeal date for the authority to transfer spending between line items from September 1, 2020 to September 1, 2025.

And there will be a lot of new faces when the legislature convenes next year. Nine senators and 13 representatives won't be returning because of term limits or because they're not running again. Democratic House Speaker KC Becker of Boulder is among the term limited. Democratic Senate President Leroy Garcia is in the middle of his term.

Finally, the JBC will receive the next quarterly revenue forecast on September 19, 2020. This will dictate state agency asks for the Governor's 2021-22 budget request.

### **Closing & Special Thanks**

Special thanks to our team in the Mayor's office, especially Skye Stuart, as well as Don Mares, and Lauren Harvey in Denver's Department of Human Services. And lastly, we'd like to thank Councilwoman Black for her leadership. It is an honor to represent the City and County of Denver!