STATE OF COLORADO

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Bill Ritter, Jr.
Governor

October 22, 2010

The Honorable Mark Ferrandino
Chairman, Joint Budget Committee
Joint Budget Committee
Colorado General Assembly
200 E. 14th Avenue, Third Floor
Legislative Services Building
Denver, CO 80203

Dear Representative Ferrandino:

Today I present my plan to balance Colorado's General Fund budget for FY 2010-11 pursuant to Section 24-75-201.5, C.R.S. This plan follows my August 23, 2010 balanced budget package for FY 2010-11, which was based on the June 2010 OSPB economic forecast. This October FY Balanced Budget Package for FY 2010-11 is necessitated by the further General Fund shortfall indicated in the Office of State Planning and Budgeting September 2010 economic forecast.

The September 2010 OSPB revenue forecast relative to the estimated FY 2010-11 General Fund expenditure level results in a need for further budget balancing of $261.7 million in FY 2010-11 to fulfill the 2.0 percent General Fund reserve requirement established in Section 24-75-201.5, C.R.S. This October 22, 2010 Budget Balancing Plan provides balancing measures totaling $296.5 million General Fund for FY 2010-11, including calibration of the reserve relative to the General Fund reductions. This plan results in an additional $34.8 million General Fund in the ending fund balance relative to the 2.0 percent reserve requirement provided for in Section 24-75-201.5, C.R.S.; this $34.8 million sum carries forward as the FY 2010-11 ending fund balance and is critical for balancing the General Fund in FY 2011-12. My FY 2011-12 balanced budget will be submitted on November 1, 2010.

The September 2010 OSPB forecast indicates available FY 2010-11 General Fund resources of $7,046.1 million, including the beginning FY 2010-11 fund balance. Against this amount of General Fund resources, $7,167.1 million was estimated for authorized spending, including the $6,940.3 million General Fund appropriation, $134.2 million of General Fund Exempt obligations and expenditures, $61.0 million of net General Fund expenditure increases requested in the August 23, 2010 Budget Balancing Plan, recognizing the estimated $28.1 million General Fund owed for Medicaid delayed payments from FY 2009-10 and $3.4 million in approved "1331" supplementals submitted pursuant to Section 24-75-111, C.R.S. The difference between General Fund revenues and General Fund expenditures, excluding the reserve, is a shortfall of $121.0 million. The FY 2010-11 General Fund expenditures subject to the reserve require a $281.3 million reserve pursuant to Section 24-75-201.1 (1) (d) (III), C.R.S. In all, the September

OSPB forecast results in a shortfall of $402.3 million relative to a 4.0 percent reserve requirement. Balancing actions totaling $261.7 million are required to bring the reserve up to 2.0 percent pursuant to Section 24-75-201.5, C.R.S.

To ensure that Colorado's budget remains balanced, this October FY 2010-11 Budget Balancing Plan provides $296.5 million of budget balancing initiatives. These components include the following:

- **$226.6 million** in General Fund expenditure reductions.
- **$65.4 million** associated with transfers into the General Fund.
- **$4.5 million** General Fund associated with calibration of the FY 2010-11 reserve level due to the reduction of FY 2010-11 General Fund expenditures subject to the reserve.

With all components considered, my October FY 2010-11 Budget Balancing Plan results in an ending General Fund reserve of $171 million or 2.51 percent of FY 2010-11 General Fund appropriations. The amount above the 2.0 percent General Fund reserve plan requirement of $136.1 million represents $34.9 million General Fund which is necessary to carry-forward into FY 2011-12 to assist with FY 2011-12 budget balancing.

Please note that many of the balancing items, discussed below, can be adjusted if the December 2010 revenue forecast deems it necessary.

$226.6 Million General Fund Expenditure Reductions

My October Budget Balancing Plan contains $226.6 million General Fund in FY 2010-11 General Fund expenditure reductions. These General Fund reductions include the following:

- $156.3 million net reductions in the Department of Education, Public School Finance and Higher Education. The $156.3 million is comprised of a General Fund decrease of $219.5 million in the Department of Education, Public School Finance offset by a General Fund increase of $63.2 million in the Department of Higher Education.

  The General Fund reduction to Public School Finance (Total Program) triggers a proportional allocation of federal State Fiscal Stabilization Funds from the American Recovery and Reinvestment Act of 2009 between the Department of Higher Education and the Department of Education.

  On August 10, 2010, President Obama signed HR 1586 into law, providing $10 billion from the Education Jobs Fund to help states avoid teacher layoffs. This action provides Colorado with an additional $156 million for local education authorities via the primary education funding formula for primary and secondary education. The state is required to pass the funds directly to the local educational agencies and governors are not permitted to direct how a LEA uses the funds. The local educational agencies have sole discretion for the use of the funds, as long as they comply with the federal requirements for Ed Jobs. A local educational agency must be able to use all the funds in FY 2010-11, if it so

chooses. If local educational agencies have not spent the funds in FY 2010-11, they may use them through September 30, 2012. LEAs may use the funds to retain staff, recall staff, rehire staff, hire staff, pay salaries, pay benefits, or provide other employee services such as bonuses, health insurance, retirement, or childcare. The State may not use any portion of these funds to benefit a rainy-day fund or reduce State debt.

- $55.1 million associated with a fee-for-service Medicaid payment delay in the Department of Health Care Policy and Financing. This $55.1 million includes a decrease to the FY 2010-11 appropriation in the Department of Health Care Policy and Financing of $27.0 million requested in this FY 2010-11 October 22, 2010 supplemental and also includes the elimination of the $28.1 million General Fund expenditure associated with the FY 2009-10 payment delay, obligated for payment in FY 2010-11, that was reflected in the September OSPB revenue forecast.

- $15.2 million reduction in the Department of Health Care Policy and Financing associated with a delay in managed care payments.

This $226.6 million General Fund expenditure reduction also results in an adjustment to the General Fund reserve requirement, realized as a benefit in the ending fund balance.

$65.4 Million Net Cash Fund Transfers to the General Fund

My October Budget Balancing Plan contains net cash fund transfers to the General Fund of $65.4 million in FY 2010-11. These net transfers include increases of $67.5 million offset by decreases of $2.1 million. The increases are comprised of the following:

- $55.0 million transferred from the Local Government Severance Tax Fund in the Department of Local Affairs. Note that the severance tax related transfers are predicated on the September Legislative Council Staff economic forecast. Should the future forecasts for this change, this request would also need to be adjusted.

- $10.0 million transferred from the Perpetual Base Account of the Severance Tax Trust Fund in the Department of Natural Resources.

- $2.5 million transferred from the accrued interest in the Colorado Travel and Tourism Fund.

The FY 2010-11 cash fund transfers are offset by $2.1 million General Fund associated with decreases in the amount transferred from two funds in the August 23, 2010 Budget Balancing Plan, updated for the September 2010 OSPB forecast:

- $1.1 million in the Higher Education Federal Mineral Lease Maintenance and Reserve Fund. This proposal requests to reduce the transfer amount in FY 2010-11 from the Higher Education Federal Mineral Lease Maintenance and Reserve Fund to the General Fund. On August 23, 2010, OSPB requested a transfer of $9,422,741 to the General Fund for budget balancing in FY 2010-11. However, after the September 2010 forecast,

this amount resulted in a fund deficit of $1,060,328. Therefore, this request revises the requested transfer amount to $8,362,413.

- $1.0 million in the Local Government Permanent Fund. This proposal requests to reduce the transfer amount in FY 2010-11 from the Local Government Permanent Fund to the General Fund. On August 23, 2010, OSPB requested a transfer of $11,422,755 to the General Fund for budget balancing in FY 2010-11. However, after the September 2010 forecasted revenues are applied, this amount results in a fund deficit of $1,030,501. Therefore, this request revises the requested transfer amount to $10,412,254.

$4.5 Million in Calibrations to the FY 2010-11 Reserve

The General Fund reserve need is commensurately reduced by 2.0 percent for the applicable General Fund expenditure changes subject to the S.B. 09-228 limit. This saves $4.5 million based on General Fund appropriation reductions of $226.6 million.

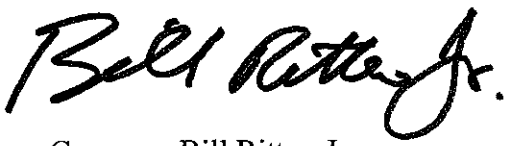
Closing Remarks

September 2010 revenues are coming in marginally higher than forecasted in the OSPB September 2010 economic forecast. If this trend continues into the December and March forecasts, adjustments to my FY 2010-11 Budget Balancing Plan may be possible, moving certain savings initiatives that have not yet been implemented in FY 2010-11 into FY 2011-12, as necessary.

My Administration has balanced General Fund shortfalls of $0.8 billion in FY 2008-09, excluding S.B. 09-279 transfers, $2.2 billion in FY 2009-10, and $1.2 billion (excluding $255 million in cost avoidance measures taken) in FY 2010-11. My August Budget Balancing Plan ultimately provided for $59.7 million of balancing actions for FY 2010-11 (excluding revenue estimate changes from June 2010 to the closing of the state's books).

I will be presenting my FY 2011-12 balanced budget request on November 1, 2010. If you have any questions about this request or about the budget in general, please do not hesitate to contact my Budget Director, Todd Saliman.

Sincerely,



Governor Bill Ritter, Jr.

Cc: Senator Moe Keller, Joint Budget Committee Vice-chairman
Senator Mary Hodge, Joint Budget Committee Member
Senator Al White, Joint Budget Committee Member
Representative Dickey Lee Hullinghorst, Joint Budget Committee Member
Representative Cheri Gerou, Joint Budget Committee Member

Speaker of the House Terrance Carroll
Senate President Brandon Shaffer
Mr. John Ziegler, Joint Budget Committee Staff Director
Mr. Todd Saliman, Director, Governor's Office of State Planning and Budgeting
Mr. Jim Carpenter, Chief of Staff, Governor Bill Ritter, Jr.
Mr. Don Elliman, Chief Operating Officer, Governor Bill Ritter, Jr.