Citizens' Budget Road Map for Sustainable Government

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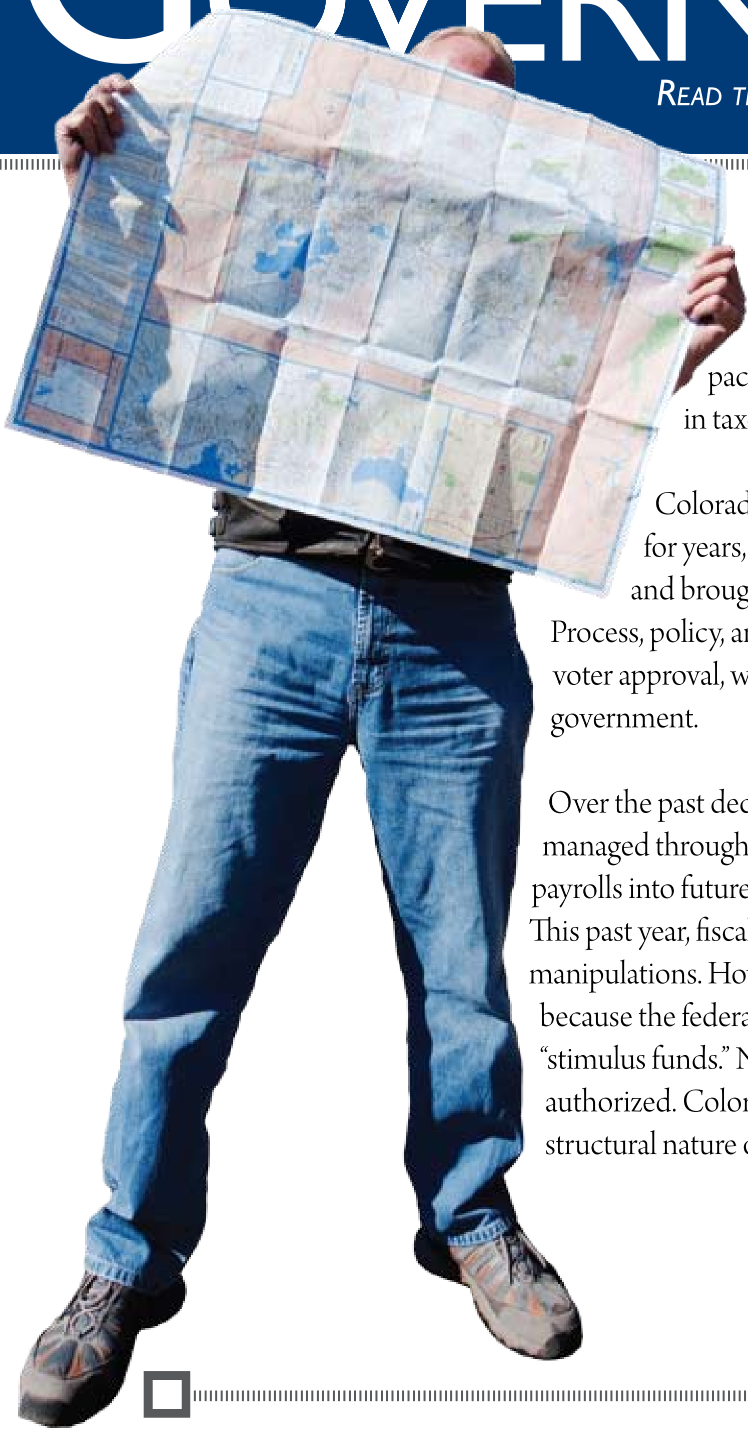

Colorado can close next year's billion-dollar budget problem, and establish a sustainable trend line for balanced budgets into the future, by undertaking a package of realistic spending revisions with no increases in taxes or fees.

Colorado faces a systemic problem that has been building for years, a problem that has been exacerbated, accelerated, and brought to the surface by two recessions in the past decade. Process, policy, and structural changes, some of which likely will require voter approval, will be necessary for Colorado to regain sustainable government.

Over the past decade, steadily increasing budget shortfalls have been managed through stopgap financial manipulations, including shifting payrolls into future budget cycles, raiding cash funds, and raising fees. This past year, fiscal pressures became too large for further short-term manipulations. However, real corrective action was deferred yet again because the federal government stepped in to subsidize the state with "stimulus funds." Next year, it is highly improbable those funds will be authorized. Colorado must implement policy changes that address the structural nature of the problem.

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Underlying Causes

The demand for government services is nearly infinite. There is always a handy explanation for someone who must be helped by expanding a current program or instituting a new one. Our elected leaders and Colorado citizens have not demanded that difficult decisions be made, choosing instead to expand State services in a futile effort to satiate the insatiable.

When one-time or short-term funds became available, the legislature applied them to fill holes for budgeted government services without looking ahead to meeting the demand for the services in out-year budgets.

We cannot place the health and well-being of government above the health and well-being of citizens. Coloradans watched as the recession removed 171,400 jobs in the economy. Citizens' personal income shrank 3.3 percent over two years, while combined state and local government grew. Families dependent on the private sector for income tightened their budgets, saw colleagues furloughed from businesses, yet watched as an increasingly unresponsive government sector continued growing. The burden of public spending at the federal and state level is becoming too great for the productive sector to support.

At the center of the problem lies an unwillingness to address how, and how much, the State spends. Colorado state government has lived too close to the limit, creating a structure and a process that cannot be sustained. It is not prudent to design future budgets based on an unsupported hope that times once again will be economically robust.

Proposed Solutions

A range of potential solutions was considered. No strategy was ruled out based simply on political ideology. Solutions were assessed on their potential for placing the State on the road to regain long-term, sustainable government.

Elected officials gladly will tell you they have cut all the fat out of programs and if we cut back any more, we will be cutting out sinew and bone. We did not look to close the $1 billion shortfall through focusing on "waste, fraud and abuse," for that would have been beyond our means to investigate each division and each branch office, as the new governor should do. Further, focusing on trimming the fat fails to address Colorado's systemic budgetary problems.

The answer given so far by the majority of the General Assembly and the executive branch is that taxes and fees are simply inadequate to support necessary State services. The structural changes they seek are potential new taxes and increases in existing taxes, coupled with higher fees.

While potentially solving the near-term budget shortfall, increasing revenue fails to address the true systemic problem regarding how and how much the State spends. Adopting this approach will place Colorado on the same path as California, New York and New Jersey—states that have repeatedly addressed budget shortfalls through increased taxes and fees. Each of these states now faces a budget crisis significantly greater than that faced by Colorado. We have the opportunity to learn from their mistakes and follow a different, sustainable path.

Colorado must budget within anticipated revenues, an approach that will require structural and policy changes. This report recognizes a few broad spending categories and confronts how we spend our funds there. Not only can we meet the challenges for next year, but the legislature could prepare during the next session for further changes to be voted on in the 2012 election.

Proposal Highlights

The report provides an overview of the structure, timing and size of the State budget. We speak to how the problems originated and how things have gone wrong, emphasizing that too much focus is on the costs that make up the spending total, such as number of leased vehicles, number of employees, office supplies and imputed value of leased space. Almost no emphasis is placed on outcomes for the spending. We urge greater attention to measuring and managing the services provided in terms of benefits received. We take a strong position in favor of a new legislative process to place government services into a priority list.

Pension benefits

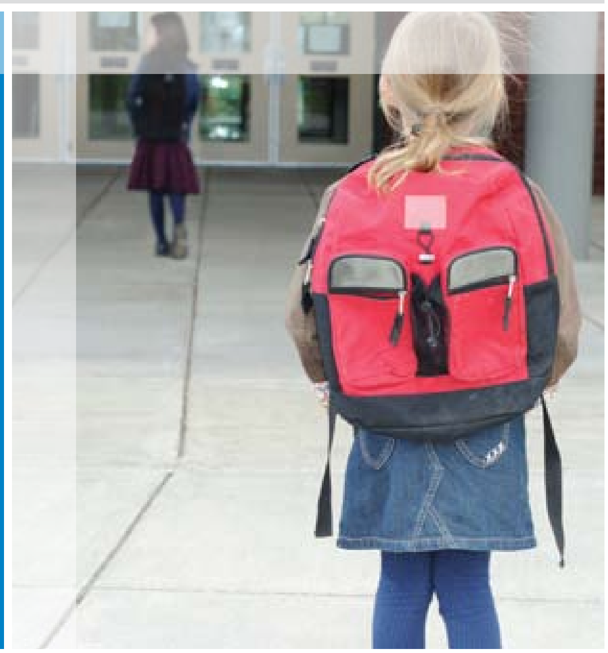
PERA's problems were reduced but not fixed with recent legislation. End the guaranteed pension to new hires in favor of defined contribution plans and separate the $23.4 billion liability for benefits owed to retirees and current workers from the cost of providing benefits to newly-hired workers who didn't contribute to that deficit. Raise the minimum age to receive benefits to the same as Social Security. Replace the taxpayer's unlimited exposure for investment results with a responsibility by the beneficiaries.

Implement a defined contribution plan for retirement benefits provided to both the State government and local governments for the Health Care Trust Fund. Next year's savings to the State would be $10.1 million. More importantly, it would save local districts (including schools) $43.6 million and would close a gargantuan unfunded liability of $1 billion.

Holding onto a state-based social security system is indefensible, since a qualifying beneficiary may never have contributed a single cent to qualify. Other elderly direct assistance programs cover basic needs. Ours is the last state with a system left over from before the federal Social Security program began its distributions. Repeal of this program could be done in two to three years, freeing up about $105 million per year.

K-12 Education

The largest single area of State spending is Kindergarten through 12th grade education. Taxpayers would be able to fulfill the constitutional mandate while taking pressure off the budget by encouraging families to seek alternatives outside of current government offerings. Using a national think-tank's education financing model, we see that tax credits to encourage new switchers would save $21.3 million for the State in its first three years and would take an additional $53.8 million off local school districts' burdens during the same span. Ten-year savings are projected to be even greater on an annual basis. A bigger annual savings to restrain teacher salary increases by eliminating the ineffective "masters degree bump" would save $137.6 million every year. A study would likely illuminate why Colorado is far outside other states' expenditures for "other business services." Adjustment just halfway towards the norm would save another $112.3 million per year.



Higher Education

Colorado is one of the states to rely on tuition increases to grow higher education spending. Better outcomes will result from expansion of the stipend program, phased in over five years, to end direct funding of state colleges and universities. Requiring average yet realistic productivity improvements will make $50 million available. Freeing all state higher education institutions to operate as government enterprises under TABOR will introduce market changes.

Corrections

Reduce incarcerations, but only for non-violent offenders. Corrections' portion of 9 percent of the budget would drop modestly back in the direction of the historical level of 3 percent. A one percent savings would be $78 million per year. Parole violations that do not involve committing another crime cost the State $40.1 million. If we could cut that in half, even if other types of costs were imposed, Colorado might save about $20 million per year.

Health Spending within the Department of Health Care Policy and Financing

Taxpayer supported health coverage has undergone vigorous expansion and enormous spending increases that are unsustainable. Returning Medicaid eligibility levels to those prevailing in FY 2006-07 could produce savings on the order of $218 million. Reversing another change in eligibility, this for adults qualifying under the Children's Basic Health Plan, will save another $140.5 million by 2012-13. Correcting Children's Benefit Health Plan enrollment fees for inflation and bringing them up to the levels charged in states like New Hampshire would bring in an extra $18 million a year. A system-wide change from third-party payer to a program that resembles health savings account spending will save about 5 percent, or $28 million.

Conclusion

Citizens must have a government that has pulled back from the edge. No more growing as large as possible and then surviving on accounting tricks and raiding cash funds. The servant of the people must address problems with difficult, adult discussions, fully aware of potential problems. If the federal government's unfunded liabilities will squeeze the economy a decade before predicted, if the federal government's massive borrowing dries up, if we get a double-dip recession, or unforeseen problems arise, we need the flexibility to respond, not to be so close to the fiscal edge that further adjustment becomes implausible.

The U.S. Constitution demands self-governance by the states. Just as families successfully budget so that they are not living on the edge or perennially dependent on bailouts, our state government must, as well.

The legislature must be prompted by the people to end Colorado's habitual over-spending.

Our Road Map can place us on a path to sustainable government.

Legislative Changes for Sustainable Government		
Action	Savings (millions)	Department
Conform half way towards normal admin services cost	112.3	School Finance Act
Tuition tax credits	21.3	K-12
Eliminate teachers' master's degree "bump"	137.6	School Finance Act
Return to 2007 eligibility requirements	218.0	Medicaid
Return to 2007 spending levels	25.0	Medicaid mental health
Repeal expansions for population that already can afford private insurance	15.0	CHBP
Raise enrollment fees for inflation	18.0	CHBP
Reverse Executive Director's Office increases	21.0	DHCPF
Modify 3rd party payer to health savings account – like spending (take care not to double count)	28.0	Medicaid, CHBP
Reduce incarceration of non-violent offenders	78.0	Corrections
Cut in half technical parole revocations	20.0	Corrections
Institute defined contribution plan for retirement health benefits	10.1	Other Retirement Benefits
Faculty productivity	50.0 to 67.0	Higher Education
Miscellaneous savings	4.0	various

Policy changes that the Legislature should offer to the people, who must approve in changes to the constitution:		
Action	Savings (millions)	Department
Roll the State's own Social Security System into welfare	105.0	Off-budget
Redirect COGO funds to the General Fund	137.0	Off-budget
Permit managed competition for internal operations that mimic private business		System wide
Repeal Amendment 23		School Finance Act

Policy changes that would have long term effects:		
Action	Savings (millions)	Department
Copy other states' commissions to consider opting out of Medicaid; let federal health care program pick it up; about 60% is future cost avoidance	1,000.0	Medicaid
Institute defined contribution plan would allow the State to fully fund the Health Care Trust Plan, closing a $1 Billion unfunded liability		Other Retirement Benefits

Policy changes that avoid future costs:		
Action	Savings (millions)	Department
Reverse eligibility for adults under the Children's Benefit	140.5	Medicaid

Policy changes that have important budgetary impacts, although not quantified in this report:	
Action	Department
Change PERA for new hires to a defined contribution plan	PERA
Separate PERA fund balances into new and old	PERA
Conform retirement ages for all PERA enrollees to match Social Security guidelines (these three moves could contribute as much as $300 million per year to plug the $23.4 billion unfunded liability)	PERA
Sunset the AED and SAED payments to make PERA accountable for reaching fully-funded status.	PERA
Relieve taxpayers from the responsibility of future bailouts	PERA
Move to higher education subsidies through only student stipends; ending direct subsidies to state colleges and universities	Higher Education
Reform the power of higher education institutions to operate as independent entities with new and flexible funds generating activities	Higher Education
Enhance the budget process by adhering to Priority-Based methods	System-wide
Enhance the budget process by focusing on outcomes rather than only inputs	System-wide
Prevent further damage to the economy by corporate welfare (This will immediately save between $4 million and $18 million per year)	Governor's Office of Economic Develop-ment; others
Reverse the Bridge Enterprise Fund power to incur debt without a vote of the people	Department of Revenue
Develop goals for expansion of tolled traffic lanes; consider how to develop separate tolled lanes for trucking	Transportation
Fund only mass transit that relieves congestion; re-balance the Denver-metro split between highways and mass transit	Transportation
Reform the make-up of the Colorado Transportation Commission	Transportation
Enhance how highways are funded, through greater privatization	Transportation
Deregulate transportation of people to introduce market reforms	Public Utilities Com-mission
Consolidate the Governor's Energy Office into executive agencies	GEO

Policy changes that would affect local governments:		
Action	Savings (millions)	Department
Institute defined contribution plan	43.6	Other Retirement Benefits

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