State Budget Process

Overview

The material describes how the State Budget is created and makes recommendations for reform. It is the second time this chapter has appeared in a Citizen's Budget.

Recommendations

- Budget for outcomes, not just inputs
- Restore the limit on general fund growth (re-implement Arveschoug-Bird)

The State of Colorado's budget is developed annually by the legislature. The process culminates in one piece of legislation that funds the executive and judicial branches for the year, known as the Long Bill. The Long Bill is organized by department. It includes authorization for each division and program for the number of state employees it may have, and covers the expected overhead costs such as imputed value of building space, cost of leased vehicles allowed and payroll burdens, such as PERA contributions and health insurance costs.[1]

Budget limits are established by quarterly forecasts[2] generated by economists working in Legislative Council staff, the research arm of the legislature. There are also quarterly forecasts developed by the Governor's Office of State Planning and Budgeting (OSPB). Each forecast includes anticipated economic conditions at the national and state levels, which in turn are used to create specific forecasts of State revenues. During years with strong revenue increases, TABOR restrains the total budget limit for State revenues.[3]

Other states depend on their governors' budget submittals to a far greater extent than Colorado, which uses legislators and legislative staff to create an initial budget. The governor is required to submit a budget by November 1 of each year.[4] That budget may be the starting point, but often is not the guiding document. Instead, the budget is generated by the Joint Budget Committee (JBC) of the legislature. Historically, the governor's input has been more influential when the majority party in both houses of the General Assembly has been the same as the governor's party. If the legislature is controlled by the party other than the governor's, however, the executive branch's influence tends to be less.

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Three representatives and three senators comprise the JBC. The majority party in each house appoints two and the minority party one. Senate Committee members are selected by a vote of each party's caucus, and Representatives are appointed by their respective leaders within the parties' caucuses. The JBC staff director runs the nonpartisan JBC staff of 13 policy analysts. They develop proposed budgets for state agencies using data obtained in presentations before the JBC, past funding figures and State Auditor reports.

The JBC usually convenes in November immediately following the election and two months prior to the legislature convening its regular session in January. The Committee establishes "common policies" for departments such as salary increase percentage, motor vehicle lease rates from the state motor pool, building lease rates, equipment depreciation and information technology costs. During the early budget process, the Committee meets in order to hear department heads present their program requests and funding needs. At that point, the JBC raises questions and concerns about requests, but provides time to department directors for research and analysis. Answers are compiled in an overall briefing document from which the JBC and its staff build each department's budget. Often the JBC asks for full investigations and intricate reviews by the departments, which occasionally have taken as much as a year to resolve.

Executive branch input is provided through the OSPB, which assembles the initial funding requests. The Schedule 3 form submitted by OSPB presents funding in great detail by type of expenditure. Each kind of expense is summarized as a line item, intended to become a final spending authority. Its five columns of data compare the request with the past two year's expenditures, current appropriations and current year adjustments.

The JBC relies on detailed annual lists for major maintenance, upgrades and new construction of State buildings and for facilities at state colleges and universities. These lists are created by the Capital Development Committee, a standing legislative committee with its own, smaller staff. The JBC's statewide budget recommends a certain level of spending for buildings, which then is applied as far down the capital development list as funds allow.

Certain programs are established as permanently revolving funds, such as construction and maintenance of county, municipal and local water supplies. A local government borrows from this source, which is "continuously appropriated," and will pay back the loans through user charges. The moneys return to the fund and are made available for the next approved application. The legislature has the opportunity to review the projects, which are listed in a separate bill each year.[5] In other respects, those funds are outside the budget debate.

Federal funds are "appropriated" in the Long Bill, allowing for specific spending through the State for programs directed from Washington, D.C. Unlike appropriations of state revenues, the JBC has no control over how federal program spending is disbursed.

JBC staff includes responses to the inquiries to bring a revised proposal to the JBC, which further adjusts the budgets at the most detailed level. The Committee takes responsibility to prepare a state budget that conforms to revenue limitations, reserve requirements caps and provisions of the Taxpayer's Bill of Rights, paring as necessary. The JBC aims for consensus to close out each department and to vote out the entire budget.

The JBC typically advocates for the Long Bill in floor action. Over the years the JBC mostly demonstrates a strong desire to operate by an internal agreement, adopted before the convening of each budget writing session, to function with a unanimous front, defending each line item as initially recommended. The other 94 legislators may of course amend the Long Bill, but rarely succeed in making more than minimal alterations. Many legislators have objected to this process, but it has been the common practice.

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Unforeseen circumstances and exigencies force departments to come back midyear for changes. "Supplemental funding "can be increases or decreases to line items within the budget, as the agencies discover changes in program demands throughout the year. Greater or lesser receipts also mean the State will adjust its budget to spend more or less, unless during strong business expansions certain limits have already been reached. Supplementals must by law be submitted by the first day of January,[6] and are habitually the first budget actions voted on in each legislative session.

Problems

We started our Citizen's Budget stating that the structure of the State budget must be challenged and altered. A critical observation is that the process starts from the prior year's spending. By law, the JBC had the authority to request a zero-based budget,[7] but rarely had the time and resources to make more than a modest attempt. That authority was repealed in 2010 by House Bill 1119.

We recommend a different way of identifying spending priorities. It is such an important discussion that we give its own separate chapter, below.

Focus on results, not inputs

In addition to tackling priorities, we identify as a significant weakness that budgets are put together by compiling the quantity of *inputs* that agencies believe are necessary. A better formulation would be to start with metrics about *outcomes*. Rarely does the legislature argue over outcomes, just the inputs. Some executive branch agencies have performance metrics written into their strategic plans, but the process for the legislature has not been results-oriented. For example, "How many people are removed from the homeless rolls?" would be a better question than "How many employees need to drive what number of leased vehicles?" to address the problem.

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Greater accountability can be demanded if Colorado is able to compare outcomes with other states' results. If our Human Services is handling only 90 percent of welfare cases for the same money as another state, that situation would suggest an immediate opportunity for greater efficiency. If reading programs are 50 percent more expensive than in similar neighboring school districts, likewise a change may be indicated.

In order to resolve structural problems in the budget, the legislature must alter the process by which it decides the budget. It must understand what product or service is being purchased, since there will never be more than a few people who can know definitively the right number of inputs to solve a problem. Accountability will entail forcing agencies to set realistic but rigorous goals for government programs, and then clearly demonstrating they are organized and managed to succeed. Once elected officials figure out what is a proper taxpayer-funded service, citizens have the right to know that what is purchased is designed to tackle and hopefully improve or solve a societal problem. Should the program fail to meet its objectives, a resolute decision must be made to end the failure and demand a new approach.

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As things stand now, we have it backwards. Failure is offered as reason for the legislature to pour more money into a failed project. Although the legislature has yet to implement a performance-based system, it appeared to take a large step in that direction by passing new legislation in 2010[8] that builds on output-based concepts. Leaders should not retreat from the new process, but rather should embrace it enthusiastically.

Restore the Arveschoug-Bird spending limitation

A limitation on how quickly General Fund spending may increase predates TABOR. In 1991 the legislature imposed a statutory measure to ensure appropriations for operations would not expend more than 6 percent over the prior year.[9] (It is known by its sponsors' names: Representative Steve Arveschoug and Senator Mike Bird.) Proponents of TABOR intended to protect the rule from subsequent relaxation by stating, "Other limits on … spending … may be weakened only by future voter approval." The legislature was convinced to ignore that constitutional phrase and recently removed the restriction by itself.[10]

Exempted from the Arveschoug-Bird limitation are the state's expenditures for building maintenance and new capital projects. This spending is known as "capital development funding."

Most years there has been money left over after the Arveschoug-Bird limitation was applied, money that could be spent under the more generous TABOR limitation. Those funds have been used for "one-time" expenditures. Capital development moneys are used to catch up on deferred maintenance, to fund highway maintenance or construction, or to erect or remodel new state buildings and college facilities.

The 2010-11 Budget Instructions[11] state, "The amount of resources left unexpended .... is considered a reversion." We want to reverse any incentives for waste. The instructions motivate agencies, however, to spend up to the allocated amount designated for each line item of a department's budget. The alternative for the agency is to suffer a budget reversion. The reversion also provides a disincentive to spend below the amount allocated in order to avoid a continued lower level of spending in succeeding years.

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Continuing without Arveschoug-Bird will mean that day-to-day operations can, and likely will, consume all the General Fund revenues. Money for capital outlays has dried up, so building upkeep, remodeling, and new construction will continue to be deferred. The new system has already provided incentive to spend any unused funds in whatever fashion will max out the annual appropriation, however inefficacious that expenditure may be.

Endnotes

1 The objective descriptions of JBC operations and organization are derived substantially from "Role of the JBC," Joint Budget Committee at http://www.state.co.us/gov_dir/leg_dir/jbc/jbcrole.htm.

2 Forecasts are expected to be released on March 20, June 20, September 20 and December 20.

3 Federal funds do not count in computing the TABOR limit, nor do funds going towards Amendment 23's State Education Fund or for the national tobacco settlement. Other funds exempted from TABOR include gifts and other lawsuit settlements and awards, but these last are not significant revenue factors.

4 Colo. Rev. Stat. § 24-37-304(b).

5 The Water Conservation Board may give loans under $10 million directly to entities without action by the legislature. For projects over $10 million, the Board either may loan funds if authorized by legislation or the Board may instead grant money to the entity that does not need to be repaid, but that too must be authorized in a bill.

6 Colo. Rev. Stat. § 24-37-304(b.5)

7 Colo. Rev. Stat. § 2-3-207.

8 House Bill 1119.

9 The limitation also must conform to a growth limit of a change in personal income over 5 percent, but this economic measure of the entire economy will rarely come into play.

10 Senate Bill 2009-228 by Senator Morse and Representatives Marostica and Court, "Concerning an Increase in the Flexibility of the General Assembly to Determine the Appropriate Use of State Revenues."

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