



Balanced Approach to Address the FY 2025-26 Budget Shortfall Due to Federal H.R. 1

Governor Jared Polis

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Changes to federal tax policy in H.R. 1 are immediate and significant with a \$1.2B negative impact to state revenues in FY 2025-26. The impacts on state expenditures from reduced federal funds starts small and grow over time with the largest impact in the out years growing to nearly \$1B.

TABOR surplus and budget balancing compared to OSPB June Forecast

Updated TABOR Surplus Estimates following H.R. 1. in \$M

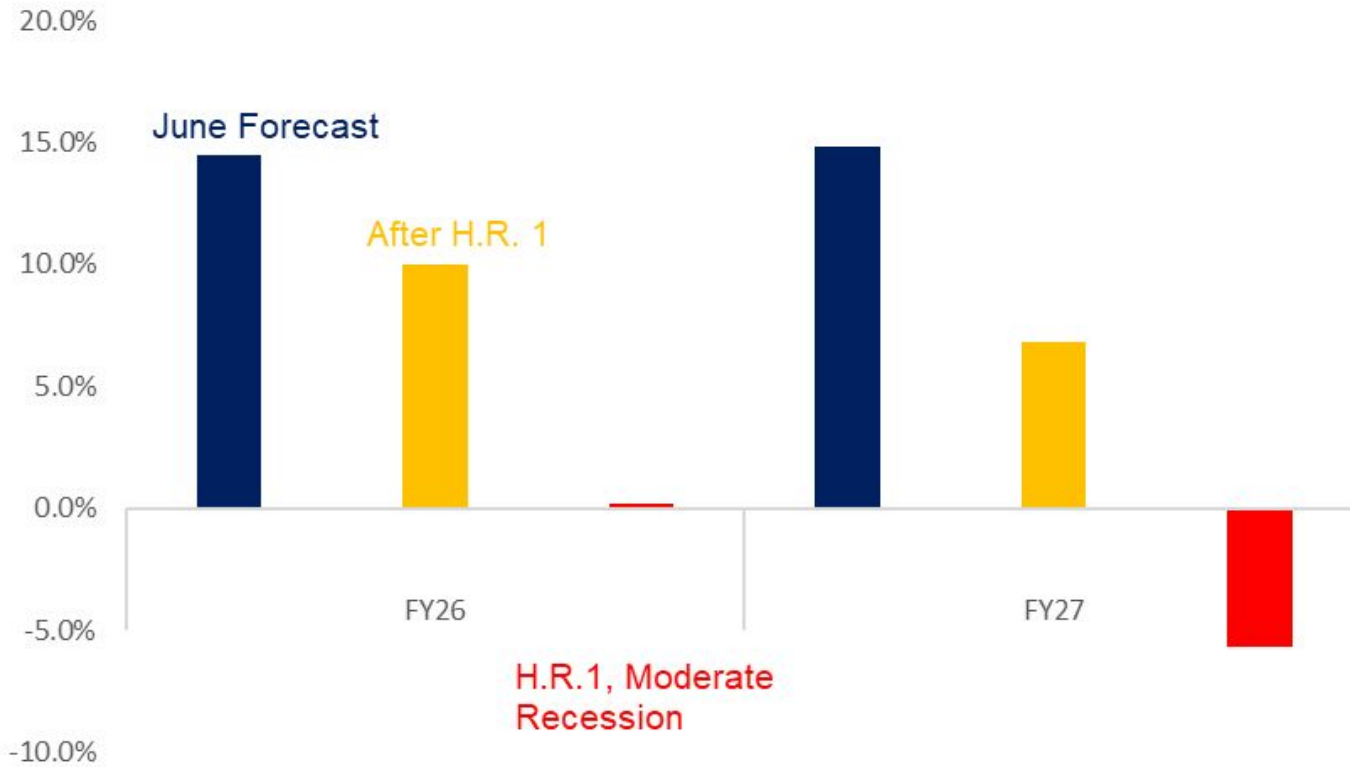
(\$millions)	FY 2024-25	FY 2025-26	FY 2026-27
June 2025 OSPB Forecast TABOR Surplus	+\$224.0	+\$289.0	+\$536.4
H.R. 1 Federal Tax Policy Impacts (midpoint)	\$0	-\$1,203	-\$679
<i>GF Impacts from H.R. 1</i>	<i>\$0</i>	<i>-\$1,031.2</i>	<i>-\$612.8</i>
<i>Impacts to SEF/123 Diversions from H.R. 1</i>	<i>\$0</i>	<i>-\$171.8</i>	<i>-\$66.2</i>
Change in FATC/EITC Triggers from June Forecast	\$0	\$0	+\$487.8
Updated TABOR Surplus Estimate w/ impact of H.R. 1 (GF non-exempt only)	+\$283.2*	-\$742.2	+\$411.4

*Updated TABOR surplus estimate for FY 2024-25 includes June revenue actuals received after the June 2025 forecast publication.

- In the June forecast, the General Fund in FY 2025-26 was estimated to be in a deficit position of \$40.9M (0.2% drop in reserve). This estimate would have likely led to a balanced budget after considering reversions, which are ~\$80M in a 'normal' year. Due to revenue impacts from H.R. 1, **FY 2025-26 is now projected to be in a deficit position of \$783.1M,** after combining the prior position with \$742.2M less GF retained by the state
- Family Affordability (FATC) and Expanded Earned Income (EITC) tax credits were assumed to be fully available in Tax Year 2027 in the June forecast, but the revenue loss from H.R. 1 turns these off.

After incorporating H.R. 1's impacts, there is not sufficient reserve to cover a moderate recession

Reserve as a Share of GF Appropriations



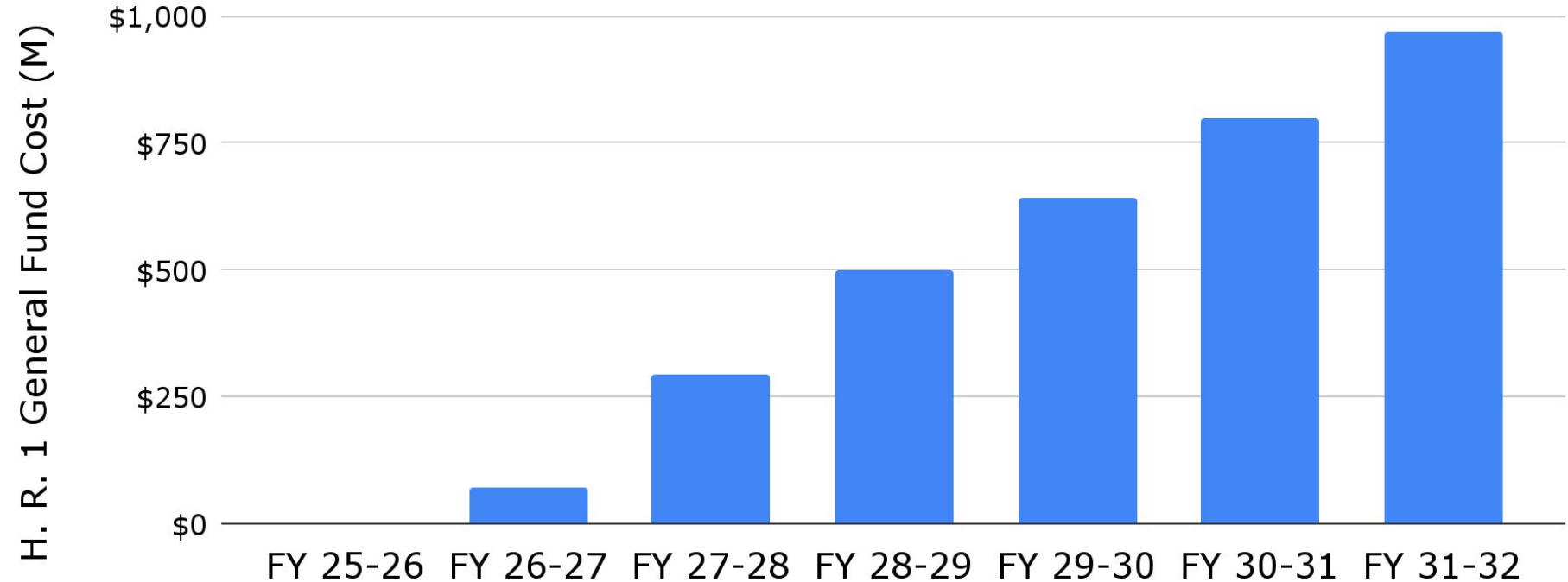
- OSPB estimates that the revenue impacts of H.R. 1 results in an estimated 10.0% reserve in FY26 and 6.8% in FY27 if no actions are taken to address impacts.
- Sufficient reserve is needed in case of a downturn in the economy. In the June forecast, OSPB estimated a 50% chance of a recession. Additionally in June, OSPB provided a moderate recession scenario with a 25% chance of occurring that would lower the reserve by \$1.6B this FY.
- Therefore, under a moderate recession, the remaining 10.0% reserve in FY26 would be required to cover the revenue shortfall this year.

H.R. 1 Ongoing Budget Impacts

This table shows growing costs due to H.R. 1.

Largest costs are:

- SNAP Match and Administration
- HCPF Work Requirements and 6 month Eligibility
- Assumed backfill of Hospital Provider Fee



Other known impacts to FY 2025-26 Budget

- HCPF Overexpenditure, \$43.5M net after \$21.5M reversion. Main drivers are long term services and supports, including
 - Home and Community-Based Services (HCBS) Waivers
 - Long Term Home Health
- HCPF/DHS H.R. 1 costs, \$3.3M
- Combined with the \$783.1M, the new amount below the 15% reserve is expected to be \$829.9M
- In addition, we expect \$10-20M in September 1331 from three different agencies (DOC, DPA and CDPHE)

Balanced approach that implements fiscal solutions, spending reductions and measured use of the reserve to address the FY 2025-26 Budget Shortfall Due to Federal H.R. 1

Special Session Actions

- Fiscal Impacts, not including income diversions, total \$245.2M:
 - [HB25B-1001](#) Qualified Business Income Deduction Add-Back (\$41.4M)
 - [HB25B-1002](#) Corporate Income Tax Foreign Jurisdictions (\$32.1M)
 - [HB25B-1003](#) Insurance Premium Tax Rate for Home Offices (\$44.1M)
 - [HB25B-1004](#) Sale of Tax Credits (total \$200M in sales, with \$100M support to the GF)
 - [HB25B-1005](#) Eliminate State Sales Tax Vendor Fee (\$27.6M)
- After special session actions, the revised amount below a 15% reserve is \$584.7M

Basis for Spending Reduction Decisions

- Consider previously proposed reductions
- Analyze FY 2026-27 Department savings proposals
- Realize savings from expected reversions due to lower spending
- Preserve K-12 education and public safety funding
- Assess short and long term impacts
 - Focus on addressing immediate shortfall
 - Continue progress on long term structural issues
- Limit reserve usage to no more than 2%
 - Enable pay back over a number of years
 - Limit significant budget pressure beyond that caused by H.R. 1

Transfers and Cash Fund Impacts

OSPB will submit supplemental budget requests to the Joint Budget Committee for a total of \$146.7M in cash fund transfers to the General Fund

OEDIT \$105M Proposition 123 Transfer

- OSPB and LCS July interim presentations to the legislature project FY 2025-26 state revenues below the TABOR cap
 - Voter approved measure language allows for a reduction in the income diversion amount when state revenues are below the TABOR cap
 - Current statute 29-32-104 (5) allows for a reduction in FY 2025-26 only if the LCS March 2025 forecast for FY 2025-26 is below the TABOR cap; given the unforeseen H.R. 1 impacts the Governor recommends expanding statute for the trigger language to account for other changes in expectations
- OSPB forecasts a \$307.7M FY 2025-26 Prop 123 diversion, of which \$184.6M would be OEDIT's share (before the transfer) to expend in FY 2026-27
- After the transfer, the \$79.6M remaining for OEDIT to expend towards Prop 123 goals will be tailored towards maximizing federal match dollars, housing tax credits, and ensuring we hold gap financing opportunities harmless

Transfers to the General Fund

- OEDIT
 - \$4M from CLIMBER (Colorado Loans to Increase Mainstreet Business Economic Resiliency).
 - CLIMBER is a COVID era small business revolving loan recovery program that has focused on funding small businesses. The Small Business Recovery and Resiliency Fund has additionally begun to support affordable housing projects in coordination with CHFA. Sufficient unencumbered fund balances amounting to \$4M are available to sweep to support GF deficit.

Transfers to General Fund

- CDHE \$9.2M from College Invest due to fund balance that exceeds demand
- CDLE \$5M from the Disability Support Fund due to revenues and fund balance that exceeds spending authority
- CDPHE
 - \$3.0M from the Mobile Home Park Water Quality Fund due to available fund balance without impact to current year operations
 - \$4.0M from the Community Impact Cash Fund due to balance and growing annual revenues that exceed spending authority and change in waterfall from 80% to 100% on July 1, 2025 that will increase revenues even more
 - \$4.0M from the School and Child Care Clean Drinking Water Fund, leaving \$10M available for completion of current program and potential expansion

Transfers to General Fund

- DOLA \$3.3M from the Local Government Severance Tax Fund due to increase in FY 2024-25 severance tax revenues
- DNR
 - \$1.7M from the Severance Tax Perpetual Base Fund due to increase in FY 2024-25 severance tax revenues
 - \$1.7M from the Severance Tax Operational Fund due to increase in FY 2024-25 severance tax revenues
- HCPF \$0.5M from MTCF due to $\frac{1}{3}$ reductions of SBIRT training grants for screenings related to substance use
- Statewide \$5.4M from the Refinance Discretionary Account of the ARPA Refinance State Money Cash Fund (originally \$15.4M held for balancing before [HB25B-1006](#) used \$10M for HIAE)

Spending Reductions

OSPB will submit supplemental budget requests to the Joint Budget Committee for a total of \$105.5M to reflect the Executive Orders

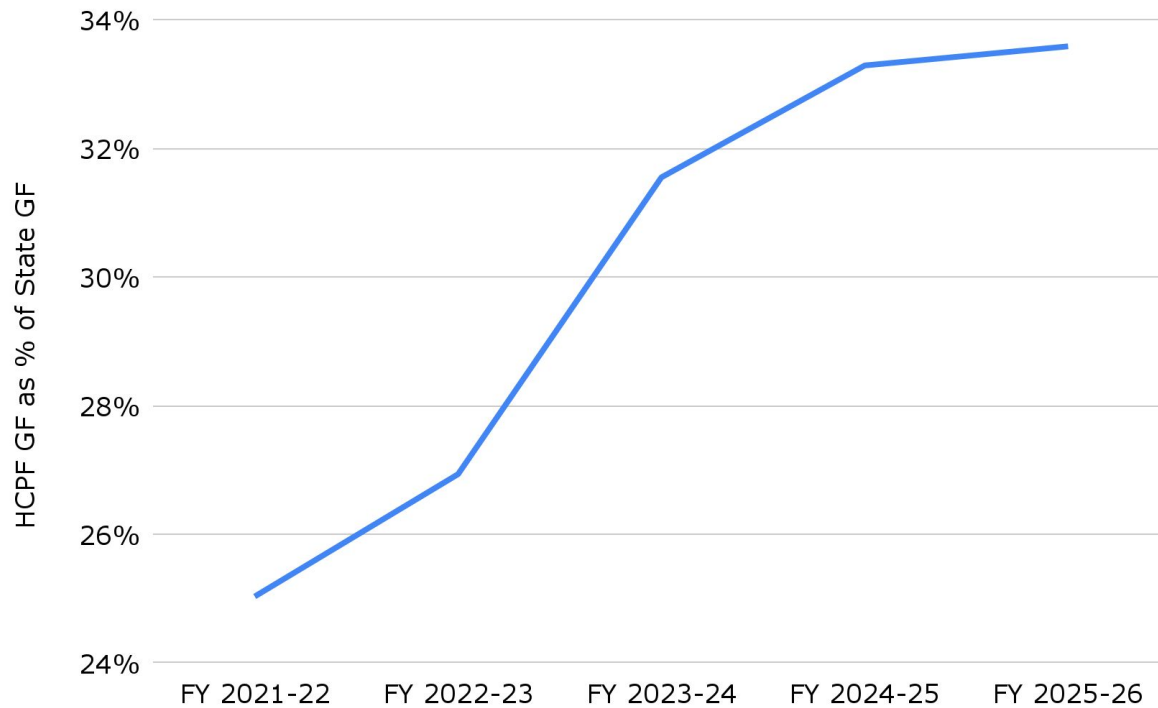
FY 2025-26 GF Reduction Plan by Agency

Department	Pre Special Session Growth % (24-25 vs 25-26)	Post Executive Order Growth %	Decrease from FY 2025-26 Appropriations
DOLA	-12.76%	-12.91%	-0.17%
CDPHE	-5.83%	-9.20%	-3.58%
DOR	-2.20%	-2.61%	-0.41%
CDHE	-0.59%	-1.34%	-0.76%
DHS	0.93%	0.80%	-0.13%
DOC	1.11%	0.76%	-0.34%
HCPF	7.10%	5.59%	-1.42%
Total Executive Branch (Under Governor Control)	3.47%	2.79%	-0.66%

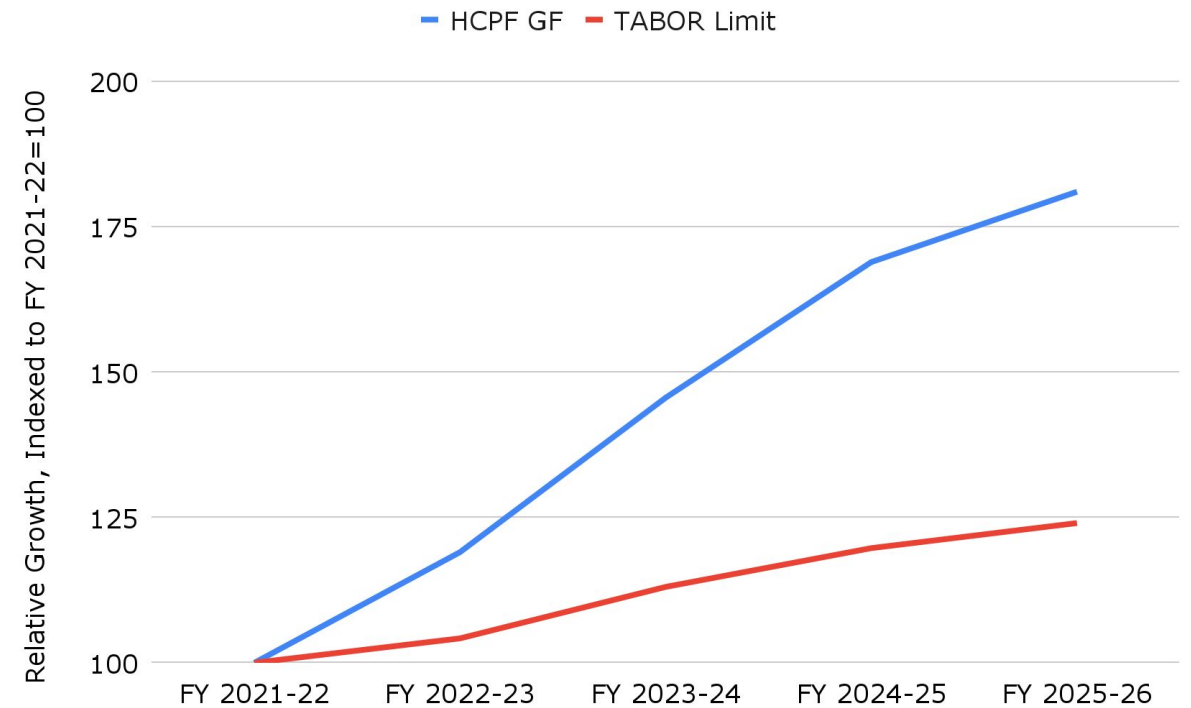
- CDHE negative -0.59% Pre Special Session Growth reflects a relocation of the State Forest Service budget lines to DNR, an one-time reduction in COP payment obligations of \$4.4M and an one-time annualizing out of a technical one-time appropriation of \$30M for H.B. 23-1246 Support In Demand Career Workforce program.

Health Care Policy & Financing Growth

HCPF GF Accounts for a Growing Proportion of State GF



HCPF GF is Growing Substantially Faster Than the TABOR Limit



Health Care Policy & Financing Reductions

Reductions in provider rates and payments

- \$38.3M reduction by maintaining FY 2024-25 provider rates by rolling back the 1.6% across-the-board provider rate increase for FY 2025-26
 - Other states are reducing their Medicaid provider rates
 - Idaho will reduce reimbursement rates by 4% next week
 - North Carolina will cut rates by 3% for all providers, with some receiving 8-10% cuts, and eliminate some services altogether, effective Oct 2025
- \$3.8M reduction in incentive payments for Accountable Care Collaborative and Behavioral Health incentives
- \$3.0M reduction by adjusting Community Connector rate, consistent with similar services

Health Care Policy & Financing Reductions

Reductions in provider rates and payments (cont.)

- \$4.4M reduction by eliminating the nursing facility min wage payment supplemental
 - The supplemental payments were intended to address low prevailing wages, but they are not necessary due to increases in the prevailing minimum wage and will be underspent.
- \$1.5M reduction in Access Stabilization Payments
- \$2.5M reduction by shrinking the FY 2024-25 dental provider rate increase by 43.6%.
- \$2.7M reduction to adjust rates for pediatric behavioral therapy (PBT)
 - Updates the benchmark analysis to include other states' current rates
 - Rates are adjusted to 95% of the benchmark rate
 - PBT spending is running at 30% annual growth
 - PBT for 6,000 children for FY 2024-25 exceeds spending for ER visits for ~400,000 members.

Health Care Policy & Financing Reductions

Cost Containment strategies to curb potential overuse of services and align with best practice:

- \$6.1M reduction by restoring Prior Authorization Requests (PARs) for outpatient psychotherapy for services that exceed clinical best practices
 - Significant 17% increase in utilization when PARs were eliminated
- \$1.7M reduction by limiting Definitive Drug Testing to 16 tests per year; additional testing will require PARs
- \$7.0M reduction by implementing pre- and post-claim review of all pediatric autism behavioral therapy codes
 - Dramatic utilization growth and OIG audit raises significant risk of federal clawbacks
 - Review providers and claims to ensure providers are credentialed and licensed and services are necessary and appropriate

Pediatric Behavioral Therapies (PBT/ABA)

Clawbacks are expected, including for Colorado, after Office of Inspector General (OIG) National PBT/ABA provider audit release this fall.

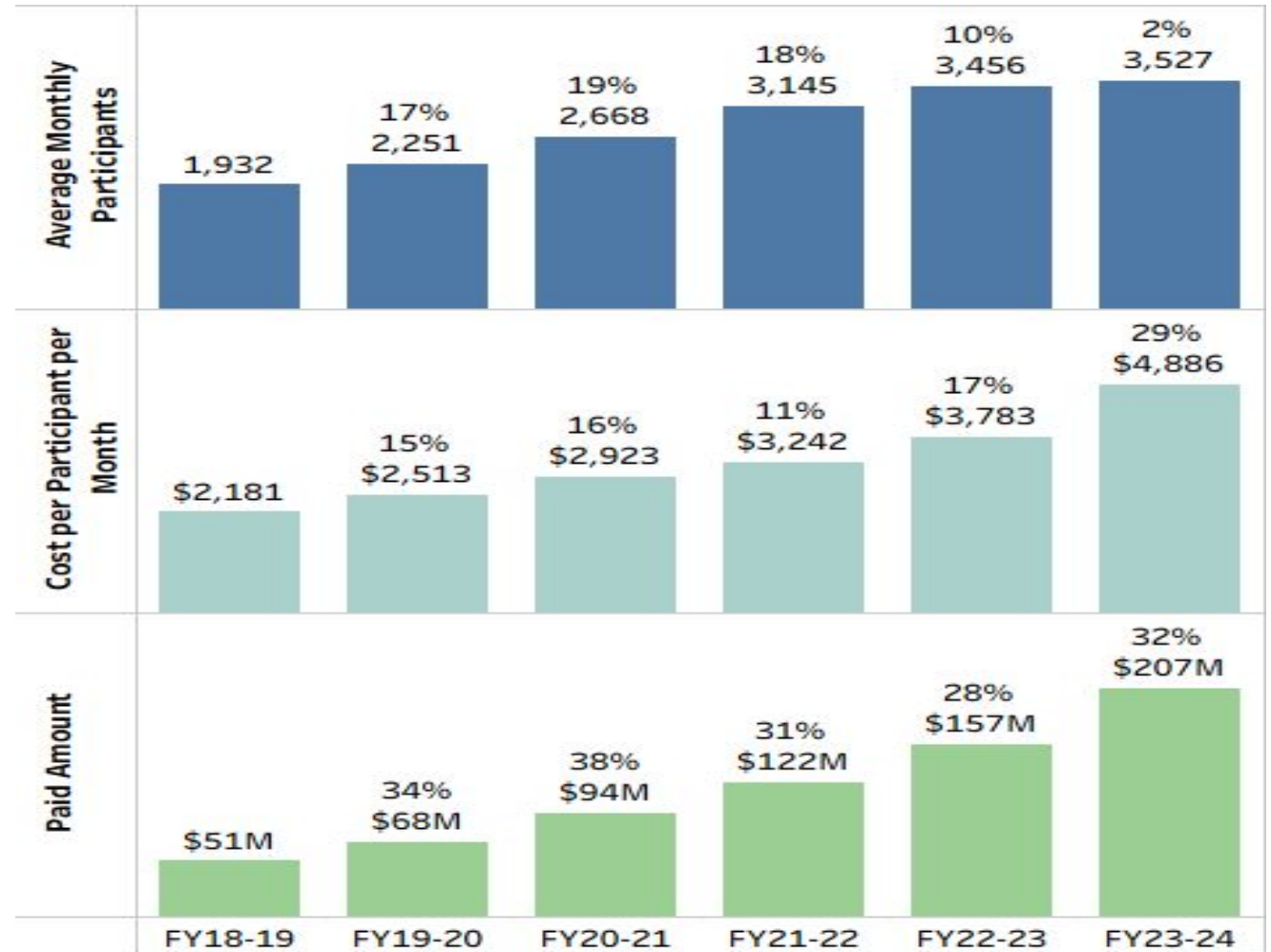
Drivers:

- Private equity provider behavior
- Requiring minimum patient hrs/wk (ie: 20 to 40 hrs)
- Billing for uncredentialed providers, naps, playtime
- Copying Electronic Health Record (EHR) entries from patient to patient, fake work billings

Potential Solutions:

- Policy & benefit design changes
- Address private equity behavior
- Advancing prior auth criteria
- Pre & post payment review
- Provider medical record audits
- Rollback of rate increases
- Additional fraud referrals

306% increase in paid amount between FY 2018-19 and FY 2023-24; +61% paid trend/yr. +30% PMPM trend/yr.



Health Care Policy & Financing Reductions

Additional reductions

- \$5.6M reduction by eliminating Continuous Coverage for children to age 3
 - CMS has indicated it will not provide federal match and will not approve or review 1115 waiver
- \$1.45M reduction in Individual Residential Services and Supports (IRSS) rates to align with host home rate
- Additional, smaller cuts amount to \$0.6M

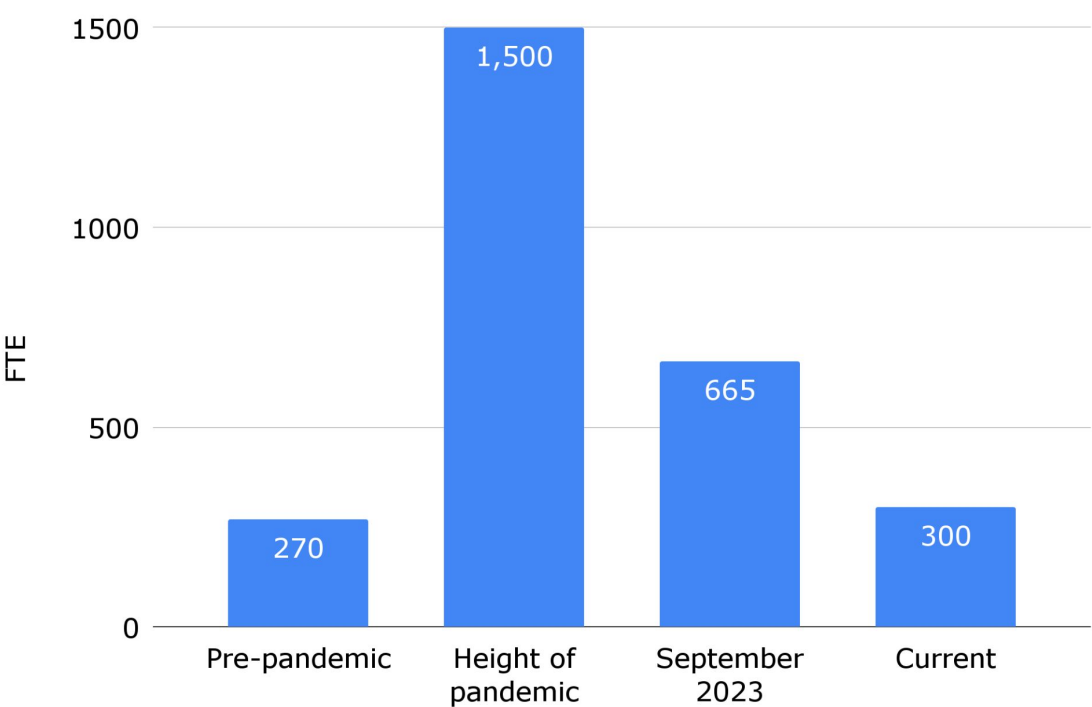
Higher Education (CDHE) Appropriation Reductions

- \$9.5M (30%) reduction to the FY 2025-26 operating increase for Governing Boards, Special Education Programs (SEP), Area Technical Colleges (ATC) and Local District Colleges (LDC).
 - \$7.5M total operating cut across Governing Boards
 - \$1.5M total cut to SEP
 - \$0.2M total cut to LDC
 - \$0.1M total cut to ATC
- \$3.2M (50%) reduction to limited purpose Fee for Service (FFS) programs
 - Improve Healthcare Access for Older Coloradans
 - Career and Technical Education and Apprenticeship Alignment
 - Career Pathways
 - Food Systems Advisory Council
 - Support Educator Workforce
 - Cybercoding Cryptology
 - Rural Healthcare Track

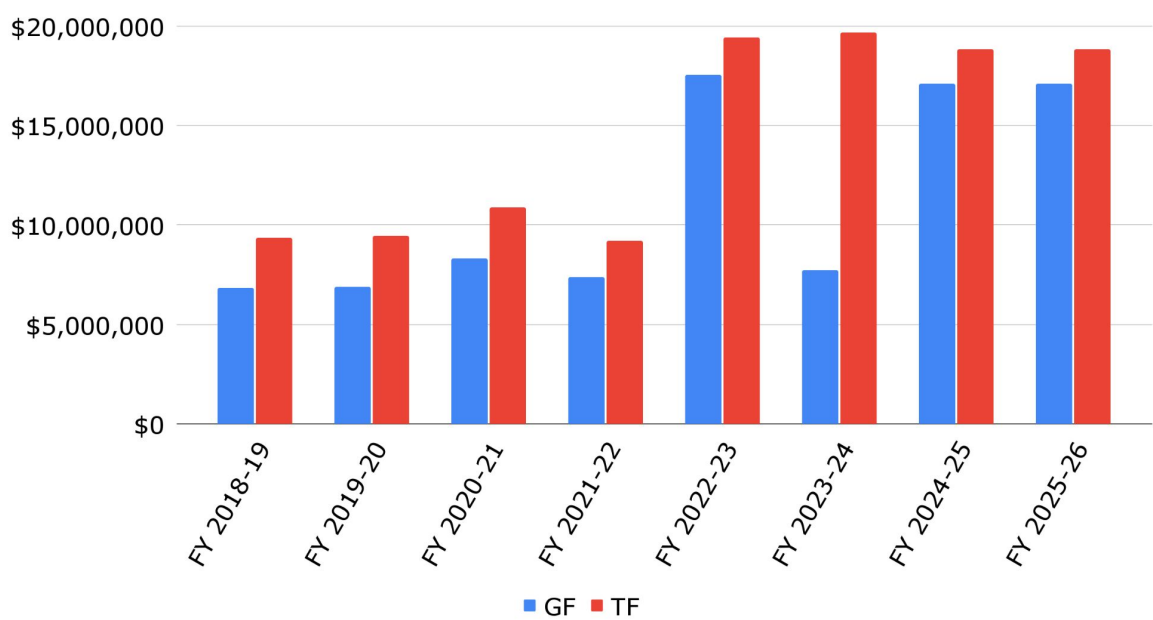
Public Health & Environment (CDPHE) Reductions

- \$2.0M appropriation reduction to Health Disparities Grants, which results in a \$4.3M total fund appropriation
- \$3.0M appropriation reduction to Distributions to Local Public Health Agencies, leaving \$15.8M, which is well above pre-pandemic levels and is well below reductions to DCPHR since the pandemic

Disease Control and Public Health Response (DCPHR)



Long Bill Distributions to Local Public Health Agencies (LPHA)



Other Appropriation Reductions

- DOC \$3.7M adjustment to right-size Transgender Healthcare appropriation based on actual spending and anticipated future need with no cut to services.
- CDHS \$1.7M reduction to mental health hospitals. These costs can be supported by existing patient revenue.
- DOR \$0.6M in total administrative cost reductions (Executive Director's Office and DMV operating expenses) that can be absorbed by the department without impact to programs
- DOLA \$0.1M adjustment to reflect lower need for Payments to OIT appropriation as building and modernizing work transitions to operations and maintenance

Balancing Actions Summary

Summary of Balancing Actions

Summary of Balancing Actions (\$ Million)	
Starting Position	-\$40.9
HR 1	-\$742.2
HR 1 Administrative Expenses	-\$3.3
HCPF Over-expenditures	-\$43.5
Total Deficit	-\$829.9
Fiscal	\$245.2
Cuts & Balancing	\$252.2
Reserve Impact of Cuts	\$15.3
Total Balancing Actions	\$512.7
Remaining	-\$317.2
Reserve Adjustment	\$328.7
Final Position	\$11.6

Note: Money in excess of 13% reserve being held for expected September Emergency 1331s 27

By making spending cuts in FY 2025-26, this leads to ongoing savings in FY 2026-27 to help reduce the budget hole created largely by H. R. 1 reduced revenue collections and the need to cover homestead with GF in FY 2026-27.

Questions?



Thank You

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