Joint Budget Committee Staff

Memorandum

To: Joint Budget Committee Members
From: Craig Harper, JBC Staff (303-866-3481)
Date: Tuesday, March 4, 2025
Subject: Statewide Decision Items R4 and R5

Staff is presenting a consolidated memo with recommendations for statewide decision items R4 (1.0 Percent General Fund Reduction for Program Lines) and R5 (Round to the Nearest $1,000).

Staff recommends denial of both of these decision items, as discussed below.

Statewide R4 (1.0 percent General Fund Reduction for Program Lines)

Request: Statewide R4 proposes to: (1) consolidate all personal services and operating expense line items (wherever a program/subdivision/division has separate personal services and operating expenses line items) into single "program lines" and (2) reduce the General Fund appropriation to each newly consolidated line item by 1.0 percent. The request excludes the Long Bill sections for elected officials, Judicial, and the Legislative Branch.

Although the request does not specify the affected line items, the Governor's Office has indicated that it would consolidate approximately 180 existing line items down to about 90 program lines. The request assumes that the proposal would save $5,472,090 General Fund for FY 2025-26.

Recommendation: Staff recommends that the Committee deny request R4 as a statewide item. The request argues that the Long Bill includes an unnecessarily large number of line items and that consolidating these line items will result in efficiencies – allowing for reductions to General Fund appropriations. Staff agrees that consolidations may make sense in some cases, and also agrees that increased flexibility for departments could allow for more reductions than would otherwise be feasible. However, maintaining separate line items provides transparency and some level of control to the General Assembly (which the Committee has historically protected). Where consolidation makes sense, and the benefits to efficiency could outweigh the loss of transparency and control, staff recommends that departments and/or JBC Staff make those requests and recommendations on a case-by-case basis.

Analysis: The request proposes to consolidate personal services and operating expenses line items across all affected agencies, giving departments flexibility to cover both personal services and operating expenses out of the single line item. The proposal excludes line items where titles identify a specific expense (e.g., utilities), appropriations that are already program lines, and major caseload-driven line items such as in Human Services and Corrections. The proposal would obviously consolidate appropriations for all fund sources, although the proposed 1.0 percent reduction would only apply to the General Fund appropriation.

The Governor's Office calculated the estimated reduction using the FY 2025-26 "base" (equal to the FY 2024-25 appropriation as adjusted by annualizations), consolidating the line items as described, and reducing the General Fund for the newly consolidated line items by 1.0 percent. Individual agency requests did not reflect the proposed consolidations or the associated budget reductions. Rather, request R4 shows the estimated total reduction, by department/agency (see table below).

Statewide R4: Estimated General Fund Reductions	
Department	Estimated Reduction
Agriculture	$36,483
Corrections	2,606,574
Early Childhood	157,899
Colorado School for the Deaf and the Blind	147,020
Governor's Office	75,214
Health Care Policy and Financing	313,581
Higher Education	0
Human Services	449,341
Labor and Employment	4,648
Local Affairs	43,402
Military and Veterans' Affairs	0
Natural Resources	2,585
Personnel and Administration	137,290
Public Health and Environment	223,327
Public Safety	504,290
Regulatory Agencies	153,801
Revenue	616,635
Transportation	0
Total	**$5,472,090**

As noted above, the Governor's Office has indicated that the request would consolidate approximately 180 existing line items into roughly 90 program lines. The request argues that the proposed program lines will allow agencies "to respond to changes in their operational needs dynamically" and would generate enough efficiencies to allow for the 1.0 percent General Fund reduction. The request also points out that the consolidations would reduce the need for budget requests (including supplementals and decision items) simply moving money between the affected line items.

Staff notes the following points:

- Some agencies are, in fact, already largely supported through program lines. The Department of Education's budget is almost entirely program line items (outside of the School for the Deaf and the Blind shown in the table above). The various agencies within the Legislative Branch are also funded through program lines. However, the use of such lines varies widely among agencies.

- Staff's analysis assumes that the General Assembly prefers the level of budgetary control that separate line items provide in appropriations for many departments. For example, the Committee has frequently expressed concern about transferring funds between personal services and operating expenses line items during the FY 2025-26 budget process.
- Staff also notes that nearly half of the proposed savings are in the Department of Corrections, which is not surprising given the hundreds of millions of dollars in General Fund personal services appropriations in that department. However, staff is confident that the detail in the Corrections section of the Long Bill reflects the General Assembly's effort to exert control over that budget in particular. Given that, staff would specifically recommend against broad consolidations in that Department.

As noted above, staff agrees that line item consolidations may be warranted – and even advisable – in some departments. Staff also agrees that taking reductions to capture some of the resulting "efficiencies" would be warranted. However, staff does not recommend a statewide approach to this question, and does not recommend foregoing one of the powers of appropriation (separate line items for defined purposes) for relatively minimal benefit in balancing the budget. Instead, staff recommends that agencies (and the Governor's Office) continue to request potential consolidations on a case-by-case basis.

Statewide R5 (Round to the Nearest $1,000)

Request: Statewide R5 proposes that the Long Bill stop appropriating "to the dollar" and instead round all appropriations to the $1,000. To provide an estimated $449,396 in General Fund relief, the request proposes the following rules *for FY 2025-26 only* (in subsequent years all fund sources would use normal rounding):

- Round all General Fund and cash fund appropriations *down* to the nearest $1,000 (generating General Fund reductions relative to the current process).
- Round reappropriated funds using standard rounding.
- Round all federal funds *up* to the nearest $1,000.

Recommendation: Staff also recommends that the Committee deny request R5. Staff agrees that appropriating to the dollar gives a false level of precision and that the General Assembly should consider rounding. However, staff is concerned about potential statutory complexities and unforeseen consequences.

Based on those concerns, if the Committee is interested in pursuing that option, then staff would request that the Committee ask JBC Staff to return with a plan to do so in the fall for the FY 2026-27 Long Bill. To the extent that rounding could provide one-time General Fund savings, the JBC Staff option would still allow the General Assembly to capture those savings for FY 2026-27. Given the State's budget climate, it is clear that General Fund relief will still be necessary next year.

Analysis: The request proposes to stop appropriating to the dollar, start rounding all appropriations to the $1,000, and use that as an opportunity to secure some one-time General Fund reductions (relative to the status quo) by automatically rounding every General Fund appropriation down to the nearest $1,000 for FY 2025-26 only. According to the request, agencies applied the specified rounding rules to their FY 2025-26 requests and that scenario showed a net reduction of $829,174 total funds, including a decrease of $449,396 General Fund, spread across all most agencies (see the table from the request below).

Department	General Fund (Round Down)	Cash Funds (Round Down)	Reappropriated Funds (Round)	Federal Funds (Round Up)	Total Funds
Agriculture	-$10,479	-$18,865	-$1,362	$6,776	-$23,930
Corrections	-$62,424	-$16,605	-$37,575	$1,865	-$114,739
Education	-$25,197	-$18,810	-$494	$0	-$44,501
Early Childhood	-$27,195	-$29,355	$4,350	$14,545	-$37,655
Governor's Office	-$12,985	-$6,305	-$3,080	$1,926	-$20,444
OIT	-$8,054	-$5,550	-$719	$427	-$13,896
Health Care Policy & Financing	-$36,973	-$26,897	$362	$40,444	-$23,064
Higher Education	-$17,892	-$13,990	-$13,836	$4,867	-$40,851
History Colorado	$996	-$8,009	-$283	$2,584	-$4,712
Human Services Except BHA	-$64,329	-$38,288	-$39,267	$40,409	-$101,475
BHA	-$9,348	-$9,114	-$2,800	$3,855	-$17,407
Labor	-$20,969	-$79,815	-$1,795	$19,211	-$83,368
Local Affairs	-$15,196	-$16,764	-$17,146	$11,482	-$37,624
Military Affairs	$302	$52	-$24	$888	$1,218
Natural Resources	-$9,464	-$34,235	-$9,064	$12,442	-$40,321
Personnel & Administration	-$15,284	-$11,570	$1,304	$0	-$25,550
Public Health & Environment	-$48,124	-$13,024	$0	$35,610	-$25,538
Public Safety	-$33,227	-$42,487	$0	$15,445	-$60,269
Regulatory Agencies	-$10,772	-$31,672	-$9,865	$0	-$52,309
Revenue	-$22,782	-$36,946	-$440	$868	-$59,300
Transportation	$0	-$3,806	-$672	$1,039	-$3,439
Total	**-$449,396**	**-$462,055**	**-$132,406**	**$214,683**	**-$829,174**

As shown in the table, the estimated General Fund reductions are small for each agency. The *largest* reduction would be $73,677 in the Department of Human Services (including $9,348 in the Behavioral Health Administration).

The Committee should note that, similar to request R4 (above), the estimates for R5 do not include the elected officials (State, Treasury, and Law), the Legislature, or the Judicial Branch. Including those agencies would increase the size of the General Fund reduction. If the Committee wished to go forward with this type of change, then staff would strongly recommend that it apply to the entire Long Bill (as well as other legislation) and all agency appropriations. Staff would not recommend appropriating with different levels of detail for different agencies.

As discussed in the recommendation section above, staff agrees that appropriating to the dollar reflects an artificial level of precision in most appropriations. Staff also agrees that rounding to the nearest $1,000 would be a reasonable compromise. However, staff is not recommending approval of this item at this time; instead, if the Committee is interested in moving away from the current system, staff requests direction to study options during the interim and return with a proposal for FY 2026-27. Staff offers the following considerations:

- First, General Fund relief will still be needed in FY 2026-27. As discussed with regard to the shortfall and "budget stress test" on February 12, Colorado is not facing a one-year challenge. The requested framework in R5 is only submitted in as a one-year balancing option (with standard rounding for all fund sources in year 2), so maintaining that option next year is reasonable.
- Second, staff wants to explore unintended consequences. The Long Bill has a number of line items where the fund source (General Fund, cash funds, reappropriated funds) appropriations are below $1,000. Rounding down to $0 seems problematic, and rounding up to $1,000 would undermine the goal of generating savings.
- For most line items, staff agrees that rounding would not require statutory change. However, based on informal discussions with the Office of Legislative Legal Services, staff suggests that statutory change would be necessary (or at least cleaner) in places where appropriations are driven by formula. For example, the school finance formula generates a total program amount that calculated to the dollar. Staff suggests that formulas should be adjusted to reflect the rounding – or to produce rounded results.
- Similarly, line items with requirements for inflationary increases may present challenges, and would warrant further analysis and consideration. For example, Amendment 23 requires total state funding for categorical programs in the Department of Education to grow by at least the rate of inflation each year. Rounding down would not be an option for that group of appropriations because the State would fall short of the constitutional requirement. Rounding up would increase costs (both by rounding up within a year and by adding to the base for inflationary calculations in subsequent years).

In short, staff agrees that rounding to $1,000 could be beneficial – and would at least help alleviate the illusion of precision in Colorado's current system. However, staff suggests that the question warrants more analysis and consideration than is available for the FY 2025-26 Long Bill. Staff also suggests that legislation could be necessary to change every formula and statutory requirement that currently requires/anticipates appropriations to the dollar. If the Committee is interested in rounding, staff recommends allowing sufficient time to analyze cases that may require statutory change.

If the Committee is interested in pursuing rounding (but waiting until FY 2026-27) then staff requests direction to pursue that analysis. Similarly, if the Committee does <u>not</u> wish to consider rounding then staff would appreciate that guidance. Barring either of those decisions, JBC Staff will consider whether to investigate this question during the 2025 interim and may return with a staff-initiated recommendation for the FY 2026-27 budget process.