

SPENDING ON HEALTH-RELATED PROGRAMS IN COLORADO

Introduction

Over the past several years, Colorado voters have approved two measures to increase state revenues dedicated to fund health-related services. In November 2004, voters passed Amendment 35 to the Colorado Constitution which increased taxes on tobacco products to finance a variety of health-related programs. A year later, voters approved Referendum C, allowing the state to keep revenues in excess of constitutional spending limits from FY 2005-06 through FY 2009-10. A portion of these revenues has been earmarked for health-related programs.

In light of voters' increased interest in public funding for these services, this brief outlines how the legislature has appropriated revenue increases for health-related services and which programs have been most affected. To understand how the new funds fit within the larger context of state-financed health services and programs, the paper examines Colorado's baseline spending on health-related programs in FY 2004-05 prior to the passage of Amendment 35 and Referendum C, and summarizes how, and to what extent, funding increased in the subsequent two years.

State agencies providing health-related services

Three principal executive branch agencies provide health-related services to Coloradans: the Department of Health Care Policy and Financing (HCPF), the Department of Public Health and Environment (CDPHE), and the Department of Human Services' (DHS) Divisions of Mental Health, Alcohol and Drug Abuse Services and Developmental Disabilities.

Department of Health Care Policy and Financing (2006-07 appropriation - \$3.4 billion total funds)

HCPF administers a number of health coverage programs for low-income Coloradans and is one of the largest purchasers of health care services in the state.

- Most of HCPF's health care expenditures are made on behalf of individuals benefiting from three health care

- financing programs – Medicaid, Child Health Plan Plus (CHP+) and the Colorado Indigent Care Program (CICP).
- In FY 2004-05, these programs provided health care coverage or financing for more than 620,000 Coloradans.

Colorado Department of Public Health and Environment (2006-07 appropriation - \$450 million total funds)

CDPHE provides public health and environmental protection services throughout the state.

- Public health programs include communicable and infectious disease control (e.g., childhood immunizations), local public health services, inspections of health facilities, prevention services, emergency medical services and health promotion campaigns.
- Environmental health program areas include clean air and water quality control; the regulation, treatment and disposal of hazardous materials and waste; and consumer protection.
- In the upcoming year, CDPHE is expected to perform around 16,000 environmental inspections; process nearly 13,000 permits and applications related to environmental control and consumer protection; and fund family planning services for almost 50,000 women (family planning dollars come from the federal government).¹

The Department of Human Services (2006-07 appropriation - \$600 million total funds for health-related programs)

The Department of Human Services is responsible for administering a variety of social service programs, including some health-related programs.

- The Division of Mental Health and Alcohol and Drug Abuse Services provides mental health services for individuals through contracts with six specialty clinics and 17 nonprofit community mental health centers. It oversees two state-operated mental health institutes providing inpatient mental health-related services. In addition, the division administers programs for alcohol and drug abuse prevention and intervention and treatment services. In FY 2006-07, mental health community programs are anticipated to provide services to more than 9,200 indigent

individuals, with an average of over 500 patients per day at the state's mental health institutes.²

- The Division of Developmental Disability Services provides residential and family support services for individuals with developmental disabilities such as autism, epilepsy and cerebral palsy. These disabilities result in limitations in language, mobility, learning, self-help and independent living. In FY 2006-07, over 3,800 individuals will be served through community-based residential care and supportive living services, while more than 400 individuals will be served through three state-operated institutional service centers.³

Amendment 35

One major source of new funding for state-financed health services in Colorado is the passage of Amendment 35 to the Colorado Constitution. In passing Amendment 35 in 2004, Colorado voters directed the General Assembly to appropriate revenues collected from a statewide increase in taxes on tobacco products to fund a variety of health-related needs. About \$159 million are projected in total revenue for FY 2006-07.

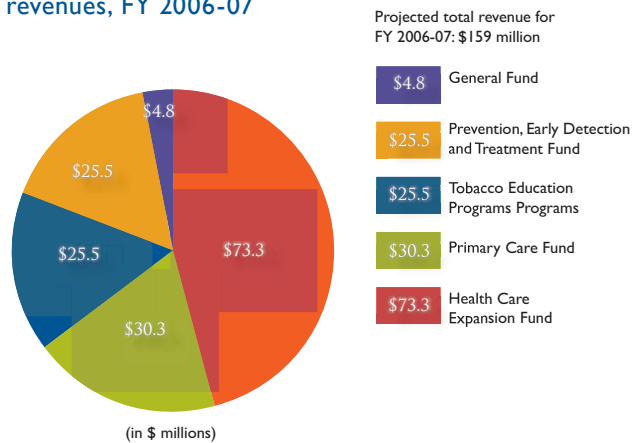
- *Health Care Expansion Fund* – About 46 percent of annual revenues are appropriated to increase eligibility and enrollment in Child Health Plan Plus (CHP+) and eligibility in Medicaid. Some of the uses include expanding Medicaid eligibility for low-income parents from 36 to 60 percent of the federal poverty level¹ (FPL), removing the asset test for low-income children and families on Medicaid, reinstating Medicaid benefits for some legal immigrants, and increasing the eligibility threshold for CHP+ children and pregnant women.
- *Primary Care Fund* – Nineteen percent of annual revenues are appropriated to fund primary care services in federally qualified health centers and other providers serving a patient population that is at least 50 percent uninsured or enrolled in the Medicaid or CHP+ programs.
- *Tobacco Education Programs Fund* – Around 16 percent of annual revenues are appropriated to fund health disparities program grants, Tony Grampas Youth Services grants, the Prevention Services Program administration, and Tobacco Education, Prevention and Cessation programs.
- *Prevention, Early Detection and Treatment Fund* – Another 16 percent of annual revenues are appropriated for breast and cervical cancer screenings, Medicaid disease management programs, and programs for the early detection and

treatment of cancer, cardiovascular and chronic pulmonary disease.

- *General Fund* – Three percent of annual revenues are divided between the Old Age Pension Fund, immunization programs, pediatric trauma centers, and compensation to municipal and county governments for a reduction in their revenues attributable to lower cigarette tax sales.

Based on the \$159 million of revenue from the tobacco tax anticipated in FY 2006-07, Graph I illustrates the distribution of these funds.⁵

Graph I. Distribution of Amendment 35 tobacco tax revenues, FY 2006-07



Future annual revenues from the tobacco tax are anticipated to remain around \$150 million and will continue to fund the designated health-related programs absent any constitutional changes.

Referendum C

The Taxpayers Bill of Rights (TABOR), a 1992 constitutional amendment, limits revenue growth to the sum of inflation and population growth from the prior year's allowable or actual revenue base, whichever is lower. Therefore, when state General Fund revenues dropped by 13 percent in FY 2001-02 and an additional 3 percent in FY 2002-03⁶, the TABOR limit "ratcheted down" the state's allowable revenue retention limit.

Following the 2005 legislative session, the General Assembly sought and received voter approval of Referendum C on the November 2005 ballot. Referendum C allows the state to retain the revenues it collects between FY 2005-06 and FY 2009-10 in excess of the TABOR limits.⁷ Passage of Referendum C, however, did not amend the General Fund spending limit which prohibits the

state from increasing those expenditures by more than six percent annually. General Fund revenues exceeding the six percent limit are used to fund transportation and capital construction projects.⁸

The passage of Referendum C avoided reductions in various state programs. If Referendum C had failed, the legislature likely would have been forced to reduce FY 2006-07 General Fund expenditures by around \$365 million.^{9,10}

While it is not possible to identify or enumerate which programs would have been eliminated or reduced in the absence of Referendum C's passage, the Governor's Office released a list of programs recommended for elimination or reduction totaling \$255 million. Some of the health-related programs and the associated general and cash funds on that list included:¹¹

- The Colorado Indigent Care Program (\$12.5 million);
- Payment of Medicare coinsurance and deductibles for certain low-income, elderly Medicaid enrollees (\$5.1 million);
- Comprehensive Primary Care grants used to partially compensate health-related providers that serve a substantial number of low-income Coloradans (\$2.7 million);
- Poison Control Center Hotline (\$1.1 million);
- Laboratory certification program (\$0.5 million);
- Radiation management program (\$1.5 million);
- Genetics counseling (\$1 million);
- Psychiatric residential treatment facility services (\$0.3 million); and
- In-patient mental health services for patients with severe psychiatric and chemical dependency disorders, the CIRCLE program (\$1.6 million).

Following the passage of Referendum C, the Department of Health Care Policy and Financing received an appropriation of \$261.3 million of Referendum C dollars for Medicaid Medical Services Premiums for FY 2005-06 and \$256.1 million for FY 2006-07. Most of these revenues were used to protect the funding base of medical services and therefore are not new or expanded funding for HCPF. In addition, the legislature reinstated funding for a number of programs that had been reduced, eliminated or remained flat during the state's earlier revenue downturn. Finally, it approved new funding to augment some existing health-related programs.

Some of the health-related programs and providers that received General Fund increases or reinstatements in FY 2005-06 include:

- Medicaid medical provider rates (\$3.1 million);
- Expansion of eligibility for provider payments from the Colorado Indigent Care Program for patients seen up to 250 percent of the federal poverty level (\$15 million);
- Partial reinstatement of state General Funds provided to local, district and regional health departments (\$1.3 million);
- One-time increase in funding for Tony Grampsas prevention grants (\$4 million);
- A total of 613 new early intervention placements for infants with developmental disabilities (\$700,000);
- Construction of an Institute for Forensic Psychiatry in Pueblo (\$20 million);
- Increases in funds for mental health services provided to medically indigent individuals (\$1.5 million);
- Establishment of an early childhood mental health specialist position in community mental health centers (\$300,000);
- Increases in Fort Logan residential services (\$200,000); and
- Creation of 60 new adult supported living services slots and 90 new adult comprehensive slots for individuals at high risk of emergency placement (\$1.3 million).

Many of the programs that received FY 2005-06 increases implemented during the last few months of the fiscal year received full-year funding in FY 2006-07. In addition, the General Assembly approved supplementary General Fund increases for the following health-related programs:¹²

- Additional Medicaid medical provider rate increases (\$25.2 million);
- Behavioral health organizations' contract increases (\$5.4 million);
- Additional funding for safety net provider hospitals (\$500,000);
- New funding for community mental health services in western and southwestern Colorado (\$900,000);
- Additional residential and supported living placements for individuals with developmental disabilities (\$3.4 million);¹³
- Cost-of-living adjustment for providers of services to individuals with developmental disabilities (\$7.9 million)¹⁴;
- Funds for local, district and regional health departments (\$3.8 million);

- Increased funding for childhood immunizations (\$700,000);
- Grant funding to school-based health centers (\$500,000);
- Establishment of a new HIV and AIDS prevention grant program (\$3.2 million); and
- Enhanced staffing for water quality programs (\$800,000).

Health-related expenditures: FY 2004-05 – FY 2006-07

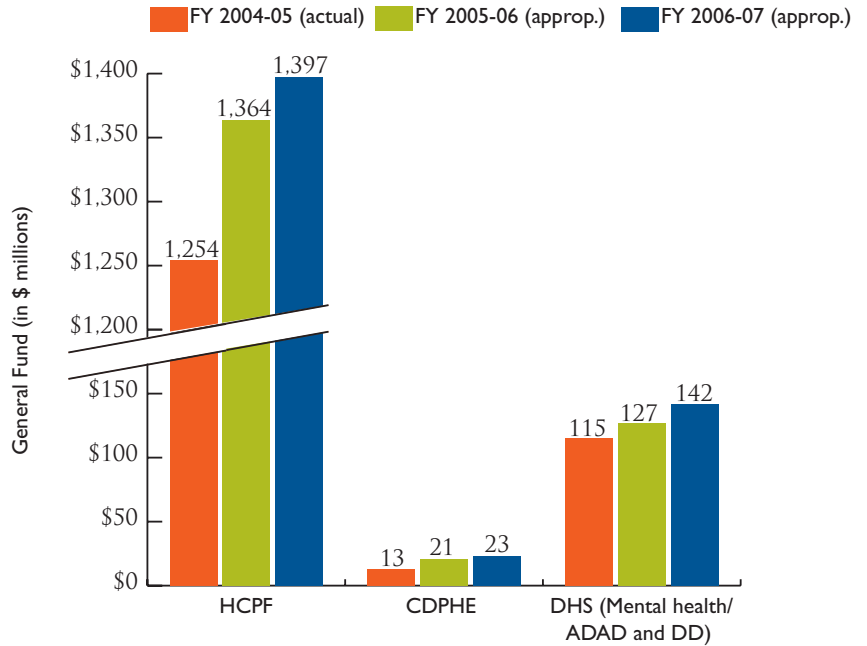
Graph 2 summarizes expenditures and appropriations for health-related programs since FY 2004-05 prior to the implementation of Amendment 35 and Referendum C. In FY 2004-05, General Fund expenditures for health programs were \$1.4 billion. By FY 2006-07, they increased by 13 percent, or \$179 million. The increases by department are as follows:

- \$143 million in HCPF¹⁵;
- \$10 million in CDPHE; and
- \$26 million in the DHS health-related programs discussed above.

Total expenditures, which include General Fund, federal funds and different types of cash funds (e.g., Amendment 35) increased \$612 million or 16 percent during the same time frame. The total funds increases included:

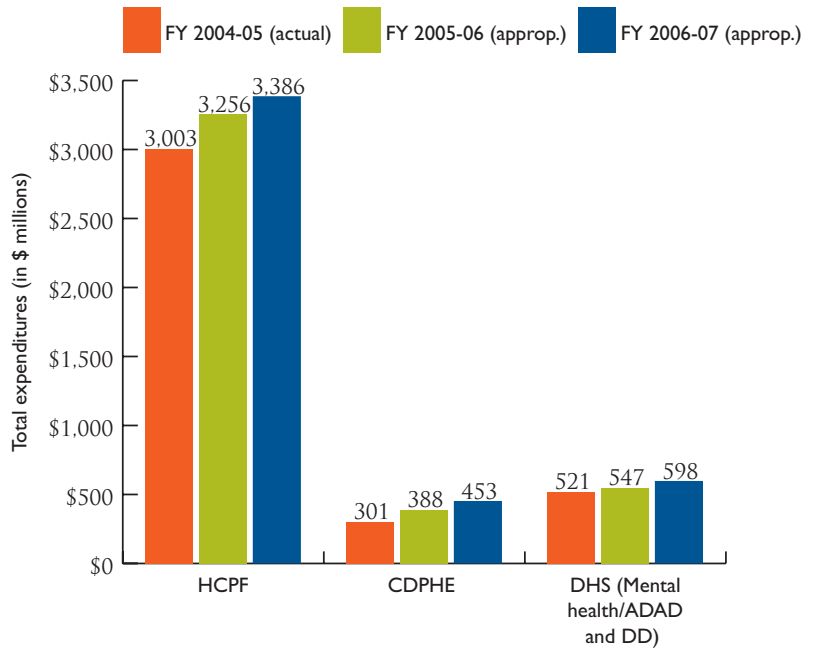
- \$383 million in HCPF;
- \$152 million in CDPHE; and
- \$77 million in the DHS health-related programs.

Graph 2. General Fund expenditures for health-related services, FY 2004-05 through FY 2006-07



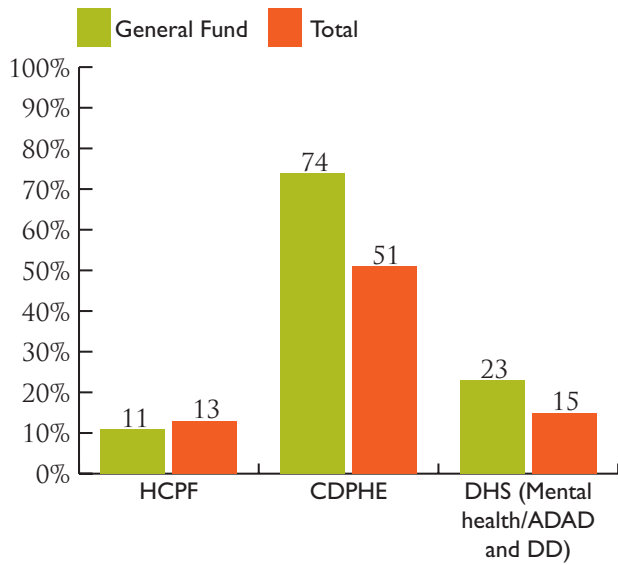
Sources: FY 2006-07 Appropriations Report, 2005 JBC Staff Briefing Documents

Graph 3. Total expenditures for health-related services, FY 2004-05 through FY 2006-07



Sources: FY 2006-07 Appropriations Report, 2005 JBC Staff Briefing Documents

Graph 4. Percent increase of General Fund and total expenditures for health-related services, FY 2004-05 through FY 2006-07



Sources: FY 2006-07 Appropriations Report, 2005 JBC Staff Briefing Documents

Conclusion

Over the past two years, passage of Amendment 35 and Referendum C has enabled the Colorado legislature to appropriate more funds for health care coverage and health-related programs than would otherwise have been possible. While Amendment 35 funds are not General Fund, and therefore not counted under the state's six percent General Fund growth limit, Referendum C funds are subject to this limit. Because of the extensive budget reductions that occurred during the early 2000s when the state's revenues were in decline, many people believe that Referendum C is not a funding panacea per se. Rather, Referendum C is seen as a mechanism to enable the state to stabilize programs, based on population growth, need and inflationary factors, that were reduced, eliminated or remained relatively flat during the state's years of revenue decline.

Endnotes

¹ Colorado Joint Budget Committee (JBC), *FY 2006-07 Budget in Brief*, p. 28.

² JBC, p. 19.

³ JBC, p. 19.

⁴ The federal poverty level currently is \$19,350 for a family of four.

⁵ Colorado Legislative Council, June 2006.

⁶ Office of State Planning and Budgeting, September 2004. *TABOR – The Taxpayer’s Bill of Rights*, p.8.

⁷ Revenues are to be spent on programs related to health, K-12 education, higher education, transportation, and local police and firefighter pension plans.

⁸ Colorado Legislative Council, October 16, 2006. *Excess State Revenues Legislative Report*. Available at [http://www.leg.state.co.us/clics2006b/cslFrontPages.nsf/FileAttachVw/ExcessStateRevenuesLegislativeReport/\\$File/ExcessStateRevenues.pdf](http://www.leg.state.co.us/clics2006b/cslFrontPages.nsf/FileAttachVw/ExcessStateRevenuesLegislativeReport/$File/ExcessStateRevenues.pdf) (accessed November 6, 2006).

⁹ Colorado Office of State Planning and Budgeting, October 20, 2005. *Potential FY 2006-07 Reductions, Memo to Governor Bill Owens*.

¹⁰ According to the Colorado Office of State Planning and Budgeting, as of September 2005, the legislature would have been required to reduce General Fund appropriations in the Long Bill by 2.7 percent.

¹¹ Colorado Office of State Planning and Budgeting, October 20, 2005. *Potential FY 2006-07 Reductions, Memo to Governor Bill Owens*.

¹² FY 2006-07 increases are incremental to FY 2005-06 appropriations.

¹³ This figure includes all Medicaid funds and local funding.

¹⁴ This figure includes General Fund, all Medicaid funds transferred from HCPF and local funding.

¹⁵ For Medicaid programs in DHS and CDPHE, Medicaid General and federal funds are appropriated to HCPF and transferred to DHS and CDPHE as cash funds exempt. Therefore, Medicaid general and federal funds for these departments are shown in HCPF.

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The Colorado Health Institute (CHI) is an independent, nonprofit health policy and research organization based in Denver. It was established in 2002 by Caring for Colorado Foundation, The Colorado Trust and Rose Community Foundation. CHI's mission is to advance the overall health of the people of Colorado by serving as an independent and impartial source of reliable and relevant data for informed decisionmaking.

