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**Report to the Governor
and
The Fifty-Eighth General Assembly**

FEDERAL BUDGET TASK FORCE

**Research Publication No. 363
January 1991**

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(303) 866-3521

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January 1, 1991

Governor Roy Romer
Members of the Fifty-Eighth General Assembly

Dear Ladies and Gentlemen:

The Federal Budget Task Force herein submits its findings and recommendations as required by House Joint Resolution 90-1025 (Appendix 1). In addition to exploring new issues, the Federal Budget Task Force has followed up on and further pursued many of the issues brought to the fore by the Federal Civilian and Defense Expenditures Task Force (created by House Joint Resolution 1019, 1989 session), the predecessor to this task force.

As recommended by the Federal Civilian and Defense Expenditures Task Force, the Governor's Office of State Planning and Budgeting (OSPB) is in the process of compiling a report on the impact of defense on the Colorado economy. We believe that the report will be useful as it contains information on defense expenditures including military payroll and employment, Department of Defense (DoD), Department of Energy (DOE) and NASA expenditures, and DoD procurement and contracts. In this report of the task force, we recommend that OSPB expand the report to include a monitoring of economic conversion efforts throughout the nation.

The task force also followed up on a recommendation by the Federal Civilian and Defense Expenditures Task Force concerning the role of higher education in strengthening space science and research programs. As you will see in this report, we recommend that the Colorado Commission on Higher Education (CCHE) continue their efforts to finalize higher education's role in economic development and develop a plan to enhance their role in attracting industry to the state.

The report of the Federal Civilian and Defense Expenditures Task Force also recommended that the Senate and House education committees meet with the Math-Science-Technology Commission to discuss efforts to design a statewide math-

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Members of the Fifty-Eighth General Assembly
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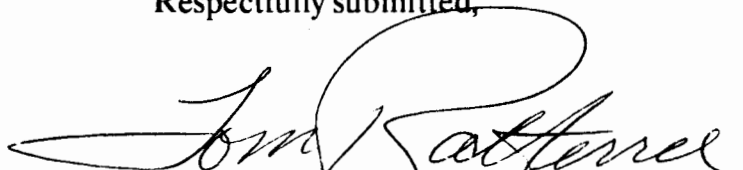
science-technology initiative. As chairman of the committee, I sent letters to Senator Al Meiklejohn and Representative Jeff Shoemaker asking that their committees meet with the Math-Science-Technology Commission prior to or early in the 1991 legislative session.

Finally, in response to a recommendation by the Federal Civilian and Defense Expenditures Task Force regarding the need to devote greater attention to the problems of smaller contractors and subcontractors associated with defense contracts, the task force met with representatives of the Office of Business Development. The task force determined that the Office of Business Development, in partnership with the private sector, is adequately addressing the problems of smaller contractors by providing a computer supplier-buyer network and pinpointing economic development opportunities in the state.

The Federal Budget Task Force followed up on a past recommendation to strengthen lines of communication with the Colorado congressional delegation for the purpose of identifying the impact that federal expenditures will have on the state's economy. We were disappointed with the resulting level of communication, and therefore, we are again recommending a process to enhance communications between Colorado policy makers and the congressional delegation. We suggest that the state assess the costs and feasibility of hiring a staff person to be located in Washington, D.C. This person would be responsible for both providing data to policy makers in Colorado and establishing a line of communication with members of the congressional delegation.

In order to monitor our recommendations, the task force has approved a joint resolution to extend the task force through April 10, 1991 (Appendix II). I look forward to continued work on these issues important to Colorado.

Respectfully submitted,

A handwritten signature in cursive script, reading "Tom Ratterree". The signature is written in dark ink and is positioned above the printed name and title.

Representative Tom Ratterree
Chairman

FEDERAL BUDGET TASK FORCE

Appointments by the Speaker of the House

Representative Tom Ratterree, Chairman
Representative Peggy Kerns, Vice Chairman
Representative Tony Grampas
Representative Wilma Webb

Appointments by the President of the Senate

Senator Jeff Wells
Senator Ray Peterson
Senator Dennis Gallagher
Ms. Wanda Reaves, Colorado Springs
Chamber of Commerce

Appointments by the Governor

Dr. Ray Chamberlain, Executive Director,
Department of Highways
Mr. John Donlon, Executive Director,
Department of Labor and Employment
Mr. Eugene Petrone, former Director, Office
of State Planning and Budgeting
Dr. William Randall, State Commissioner
of Education

TASK FORCE FINDINGS AND RECOMMENDATIONS

NEED:

Increased communication needs to occur between the Department of Defense (DoD) and members of the Colorado General Assembly.

BACKGROUND:

Statistics show the importance of defense spending in Colorado. According to the Office of State Planning and Budgeting (OSPB) data, in FFY 1989:

- Colorado received 2.2 percent of total direct DoD expenditures, ranking the state 15th in the nation;
- Defense expenditures in Colorado equalled 9.5 percent of the state's personal income compared to a national average of 5.0 percent;
- In Colorado, military payroll as a share of total payroll was 4.6 percent compared to 3.0 percent on the national level.

Just as these data demonstrate the significance of DoD activity in Colorado, they also indicate that a decline in defense expenditures in the state could have damaging repercussions to our economy. Thus, the state needs to be apprised of activities at the federal level that may impact DoD expenditures in this state. In addition, it is important that the state keep abreast of new initiatives at the federal level, such as the possible relocation of the Space Systems Division (SSD), so that we can enhance the state's opportunities for economic development. In light of this, the task force believes that policy makers in Colorado must be more cognizant of DoD activities.

RECOMMENDATION:

The task force discussed possible means for increasing communication with DoD so that members of the General Assembly and the Governor's Office have updated and consistent information regarding actions by DoD, and recommends the following:

- An oversight group, such as the Federal Budget Task Force, be created in Colorado to monitor DoD activities specifically as they relate to existing expenditures and facilities in Colorado or proposals that could benefit Colorado's economy.
- Communication be reestablished between this oversight group and Colorado's congressional delegation.
- A liaison with specific expertise in defense-related matters be designated from each congressional office to facilitate communications between the Colorado oversight group and DoD.

ACTION REQUIRED:

The President of the Senate, the Speaker of the House of Representatives, and the Governor should convene a group to monitor DoD activities. This group should apprise the congressional delegation of this task force's recommendations and request that such a liaison be designated.

IMPLEMENTATION DATE:

This group should be convened by July 1, 1991, with notification to the congressional delegation to follow immediately.

NEED:

The executive and legislative branches in Colorado must be more proactive in communicating Colorado's needs as Congress considers issues that impact Colorado.

BACKGROUND:

In FFY 1988, Colorado ranked 12th nationwide in per capita federal expenditures. The ranking of the state in per capita federal expenditures for specific areas are as follows:

- 36th nationwide for grants in aid;
- 7th among the 50 states for salaries and wages;
- 46th overall for payments to individuals;
- 8th among the states for procurement; and

- 17th among the states in per capita federal expenditures for other federal programs.

Further, in FFY 1988, the state ranked 20th in per capita federal tax collection from all states.

Federal funds account for a significant portion of Colorado's total budget. In FY 1990-91, approximately 23.1 percent of all budgeted monies were federal funds, including matching funds (Medicaid and Aid to Families with Dependent Children), grants (National Endowment for the Arts), and block grants (Alcohol and Drug Abuse Block Grant). In particular, federal funds account for a significant percentage of individual departments' budgets, as follows: 58.3 percent of the Department of Health's budget; 44.3 percent of the Department of Highways' budget; 63.8 percent of the Department of Labor and Employment's budget; 44.8 percent of the Department of Military Affairs' budget; and 52.3 percent of the Department of Social Services' budget. Notwithstanding these figures, policy makers in Colorado were limited in their ability to take a proactive stance in recent deficit reduction deliberations because little information was available.

The finalized federal deficit reduction agreement increases funding for a number of domestic programs, primarily for family and children and drug prevention and treatment, but creates new mandates for states in the areas of Medicaid and Social Security payroll taxes. With respect to federal revenue enhancement measures, federal excise taxes on gasoline, beer, wine, spirits, and cigarettes were increased, and modifications to federal income tax law were enacted. While it is estimated that changes in federal tax law will provide a net increase in state General Fund revenues, Colorado's ability to set its own tax policy is affected. Because of the importance of federal funds to Colorado and the impact of Congress' decisions on the state budget and state revenue sources, it is essential that state policy makers take a more proactive stance on issues that affect Colorado on a year-round basis, but especially during crucial budget negotiations.

RECOMMENDATION:

In order to become more proactive in the federal budget process, the legislative and executive branches need to improve communication regarding budget issues. We recommend the following to accomplish this goal:

- A permanent liaison located in Washington, D.C. should be designated, either on a part-time basis or in conjunction with other states, to report pertinent data to designated parties in Colorado and to communicate Colorado's position on fiscal policy to members of the congressional delegation.

- Representatives of the Governor's Office and the Joint Budget Committee (JBC) should establish a regular schedule of meetings to share information and develop and coordinate a unified position on federal fiscal policy matters and other issues affecting Colorado. The state's liaison in Washington, D.C. should both provide information to this working group and aid in communicating the state's position to members of the congressional delegation.

ACTION:

The Office of State Planning and Budgeting should determine the costs associated with employing a liaison located in Washington, D.C. and report on such costs to the chairman of the JBC, the Speaker of the House of Representatives, the President of the Senate, and the Governor.

The JBC and Governor should designate the individuals to be involved in coordinating a unified position on federal fiscal policy matters and other issues affecting Colorado.

IMPLEMENTATION DATE:

The costs associated with a Washington, D.C. liaison should be reported to the appropriate individuals by April 15, 1991.

The JBC and the Governor should designate members of the working group no later than July 1, 1991.

NEED:

Colorado institutions of higher education must be better prepared to address economic development needs in Colorado, including the possible move of the Space Systems Division (SSD) to Colorado.

BACKGROUND:

The Task Force on Federal Civilian and Defense Expenditures recommended that this task force establish contact with Colorado institutions of higher education to discuss strengthening space science and research programs. The task force did meet with representatives from the Colorado Commission on Higher Education (CCHE) and the Boulder and Colorado Springs campuses of the University of Colorado.

While the context of the discussion was the overall strengthening of space science and research programs, the focus of the discussion centered on the need for programs in relation to the possible relocation of SSD to Peterson Air Force Base in Colorado.

The task force requested that CCHE and representatives of the two campuses study and develop a plan for providing an environment for SSD that could also be used to attract other high-tech industry to Colorado. In conducting this study, which is not yet completed, CCHE identified the education needs of industry and how prepared the institutions are at present to serve those needs. Thus far, the study shows that the current degree emphasis in industry is in Aeronautical, Electrical and Mechanical Engineering, Math, and Physics. CCHE also conducted an examination of the extent to which these programs are offered at the Boulder (UCB) and Colorado Springs (UCCS) campuses of the University of Colorado, and found the following:

- Neither UCCS or UCB currently has a program in Aeronautical Engineering;
- UCCS currently offers both a BS and MS in Electrical Engineering;
- UCCS has no degree programs in Mechanical Engineering, however UCB does have a full array of programs;
- UCCS has a BA in Mathematics and a BS and MS in Applied Mathematics;
- UCCS has a BS and MS in Physics; and
- UCCS has a BS and MS in Computer Science.

The University of Colorado at Boulder offers many of the programs not currently offered at UCCS. Telecommunications is one option for providing these programs at the Colorado Springs campus.

In conjunction with this study, the University of Colorado at Colorado Springs developed a list of minimal additions needed by UCCS in order to support SSD or related industry. The additions of faculty, graduate assistants, laboratory facilities, renovations, and construction could cost approximately \$5 million in one-time costs and \$4 million in recurring costs.

Representatives of the universities suggested that perhaps House Bill 1187, 1985 session, does not provide the flexibility to allow CCHE to more effectively respond to the need for an increased role by higher education in economic development. In the course of these discussions, representatives of the institutions also suggested the

expansion of the Research Building Revolving Fund, and a need to remedy the two-year lag time in receiving funding for full-time equivalent (FTE) students. (The task force notes that Senate Bill 91-35 expands the amount of revenue bonds which may be issued in connection with research buildings and facilities.)

RECOMMENDATION:

The task force believes that further study is warranted relating to the role of higher education in economic development, including the level of programs needed and further use and feasibility of cooperative programs through telecommunications.

ACTION:

CCHE, in conjunction with institutions of higher education, need to complete the study and develop a plan for addressing the needs of industry.

IMPLEMENTATION DATE:

The study should be completed and submitted by August 1, 1991.

NEED:

The state should pursue efforts to diversify the state's economy.

BACKGROUND:

As noted in a previous section of this report, the state's economy is significantly enhanced by DoD activities in Colorado. This is particularly true in certain areas of the state. For example, military payroll in Colorado Springs represents 26.1 percent of total payroll. In Denver, total direct military expenditures equal 9.0 percent of personal income, while in Colorado Springs the figure is 24.6 percent. Again in Colorado Springs, military employment constitutes 20.1 percent of total employment.

Though the crisis in the Persian Gulf has shifted focus from the topic of economic conversion, a continued need exists to diversify the state's economy to ensure the future well-being of the state. Federal legislation has been enacted aimed at coping with the economic impacts of changes in defense spending. This legislation targets communities and workers adversely affected by the closure of defense contractor facilities and military installations. Several states, including California, Florida,

Massachusetts, Ohio, and Washington, have undertaken efforts to ease the transition for military and civilian personnel affected by defense spending cuts.

RECOMMENDATION:

Defense expenditures are an important component of Colorado's economy and the task force certainly endorses all efforts to continue or increase the current levels of spending. However, the state should be prepared in the event spending cuts occur in the future. The task force recommends that, as part of its report on the impact of the defense industry on the Colorado economy, OSPB include a discussion of economic conversion efforts and the success of those efforts in Colorado and in other states.

APPENDICES

HOUSE JOINT RESOLUTION 90-1025

1 WHEREAS, House Joint Resolution No. 1019, 1989 enacted at
2 the First Regular Session of the Fifty-seventh General
3 Assembly, established a Federal Civilian and Defense
4 Expenditures Task Force composed of members appointed by the
5 Governor, the President of the Senate, and the Speaker of the
6 House of Representatives; and

7 WHEREAS, The Federal Civilian and Defense Expenditures
8 Task Force met on several occasions during the 1990
9 legislative session and will make its recommendations to the
10 Governor and the General Assembly no later than the required
11 reporting date of July 1, 1990; and

12 WHEREAS, Changes in the federal defense budget are being
13 debated and could have a significant impact on the Colorado
14 economy in the next several years; and

15 WHEREAS, It is essential that state policy makers
16 continue to monitor changes in the focus of the federal
17 budget; now, therefore,

18 Be It Resolved by the House of Representatives of the
19 Fifty-seventh General Assembly of the State of Colorado, the
20 Senate concurring herein:

21 That the Federal Civilian and Defense Expenditures Task
22 Force be reconstituted as the Federal Budget Task Force, with
23 responsibility to study the impact on Colorado of a reordering
24 of federal government budget priorities in light of probable
25 reductions in the federal defense budget.

26 Be It Further Resolved, That the authorities who
27 appointed the members of the Federal Civilian and Defense
28 Expenditures Task Force shall appoint an equal number of
29 members to the Federal Budget Task Force and that the
30 appointing authorities are encouraged to reappoint the members
31 of the Federal Civilian and Defense Expenditures Task Force to
32 the Federal Budget Task Force.

1 Be It Further Resolved, That members of the Federal
2 Budget Task Force not be compensated for their attendance at
3 task force meetings, that staff be provided to the task force
4 by the Legislative Council and the Office of State Planning
5 and Budgeting, and that the task force report its findings and
6 recommendations to the Governor and the General Assembly not
7 later than January 1, 1991.

HOUSE JOINT RESOLUTION 91-1006

1 Be It Resolved by the House of Representatives of the
2 Fifty-eighth General Assembly of the State of Colorado, the
3 Senate concurring herein:

4 That the Federal Budget Task Force, appointed pursuant to
5 House Joint Resolution 90-1025, be authorized to continue the
6 study of the impact on Colorado of a reordering of federal
7 government budget priorities in light of probable reductions
8 in the federal defense budget.

9 Be It Further Resolved, That members of the Federal
10 Budget Task Force not be compensated for their attendance at
11 task force meetings and that staff be provided to the task
12 force by the Legislative Council and the Office of State
13 Planning and Budgeting.

14 Be It Further Resolved, That the Federal Budget Task
15 Force complete its activities no later than April 10, 1991,
16 and that the task force make a final report of its findings
17 and recommendations to the Governor and the General Assembly
18 as soon thereafter as practicable.