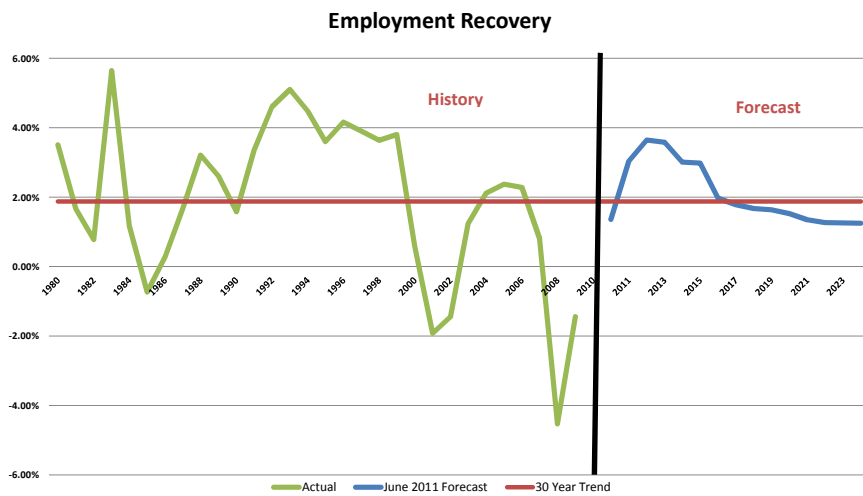




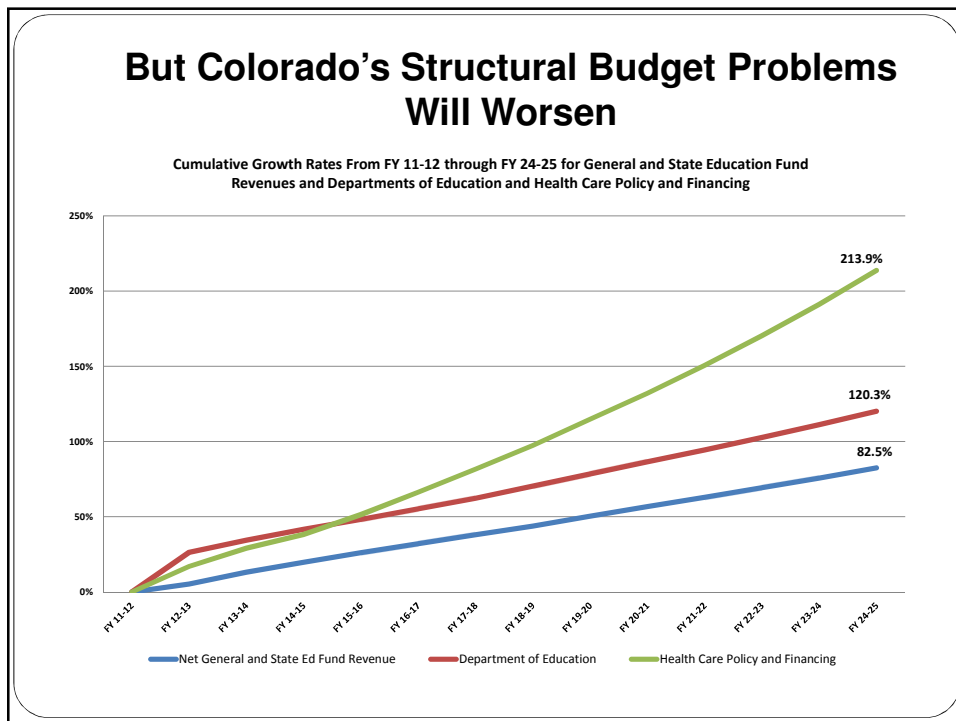
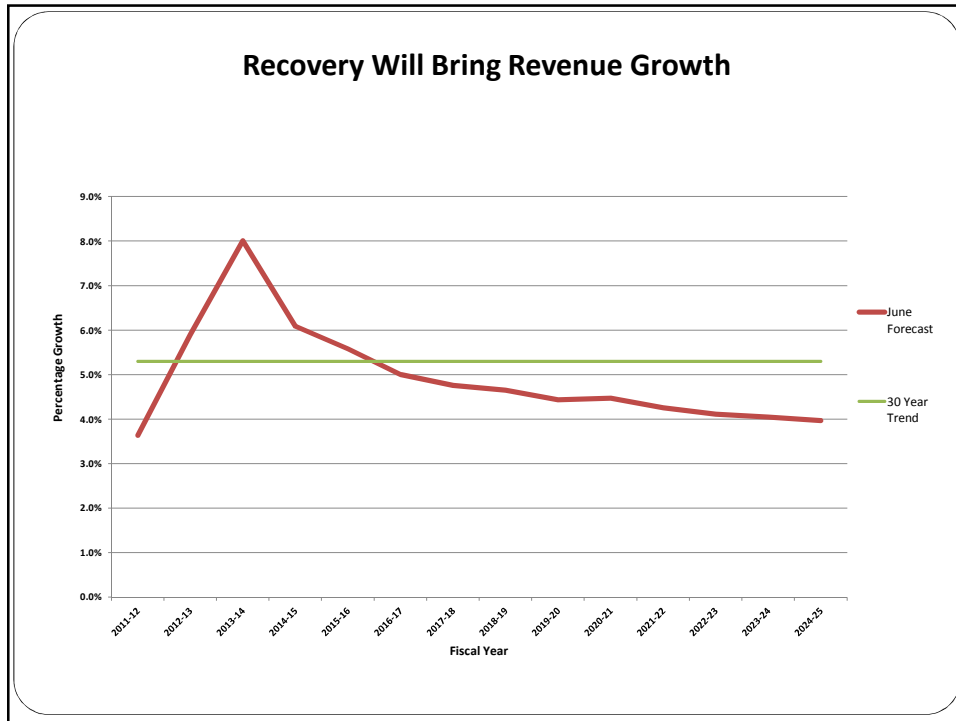
Center for Colorado's
Economic Future

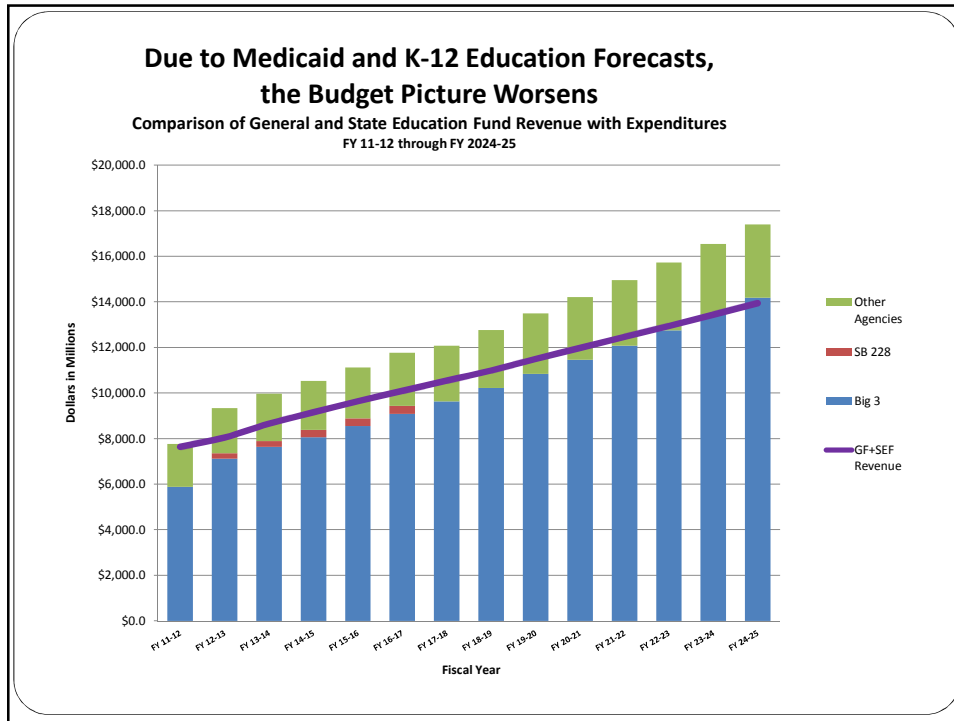
*Financing Colorado's Future – An
Analysis of the Fiscal
Sustainability of State
Government*

**When did the Great Recession Become the Least
Interesting Problem Facing Colorado?**



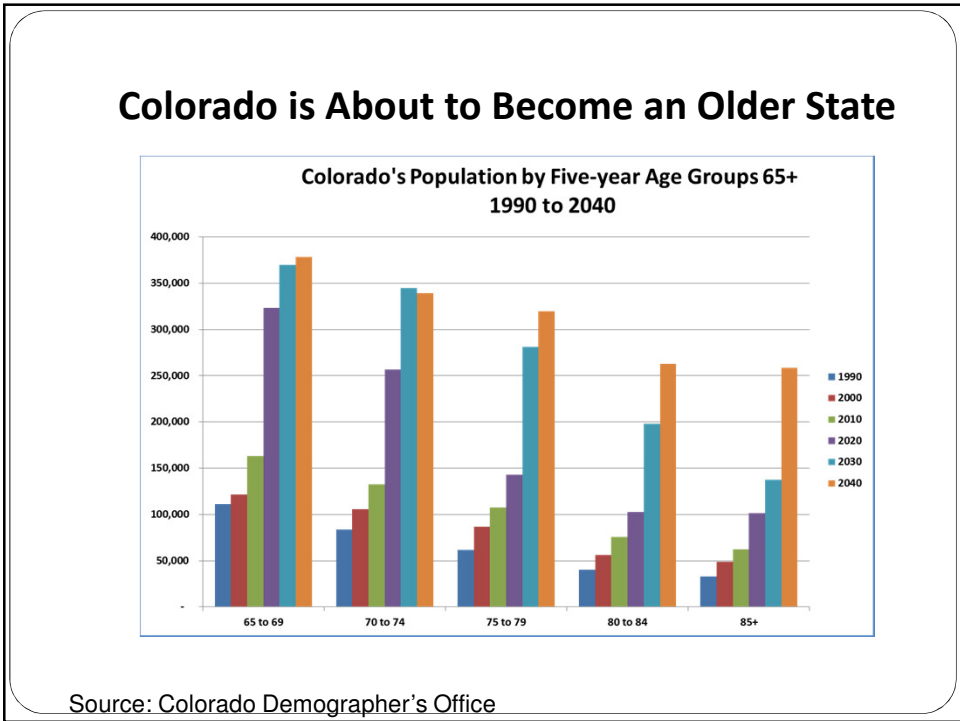
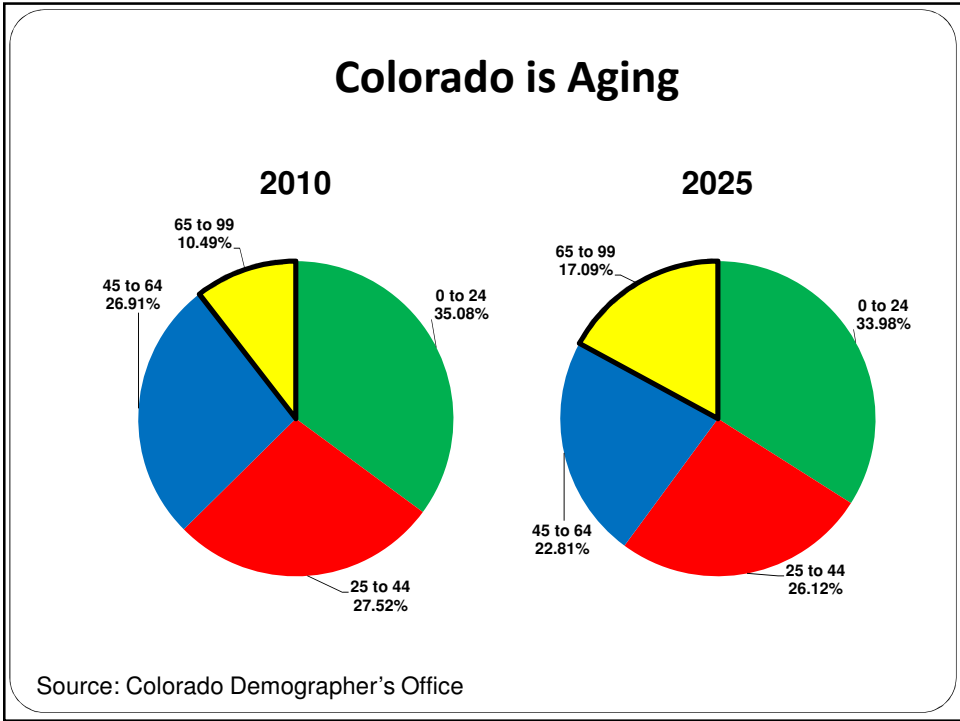
Source: CBEF state macroeconomic model



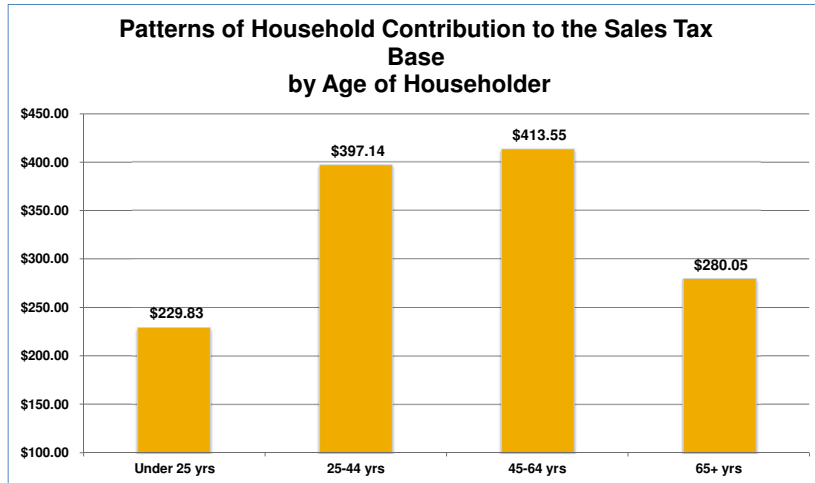


Diagnosis: What is Happening?

- Structural and demographic changes will affect revenue
- Medicaid growing at 1.7 times revenue
 - Age Demographics
 - Medical Inflation
- System being used to pay for is K-12 failing the state
 - Leakage in local property tax

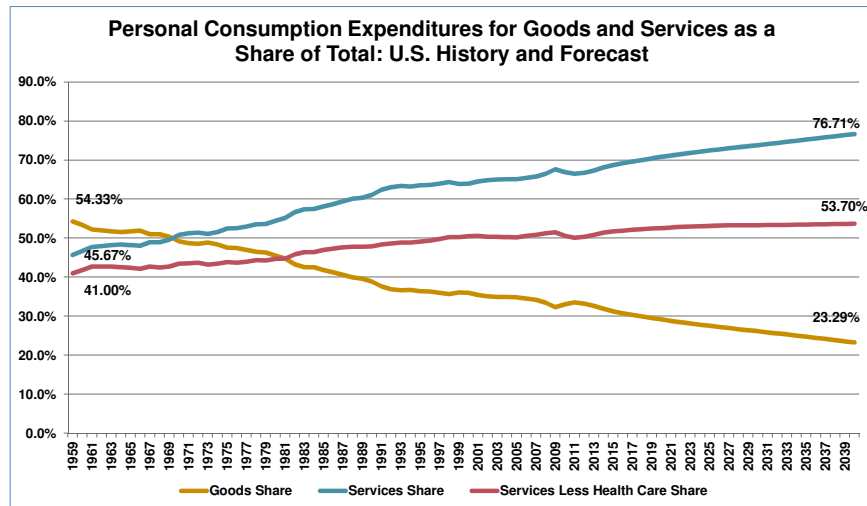


Aging Affects Revenue



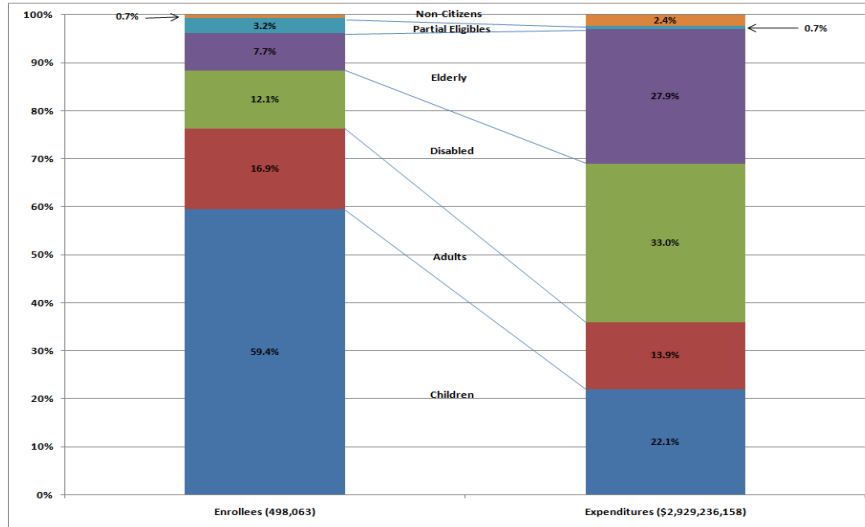
Source: Consumer Expenditure Survey, BLS

The Economy is Changing



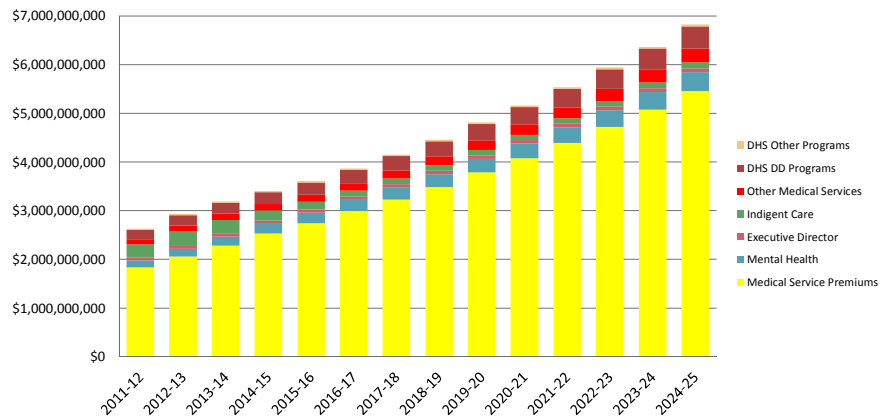
Source: Moody's Economy.com

Aged Care Represents Disproportionate Share of Medicaid Cost (FY 10 Data)

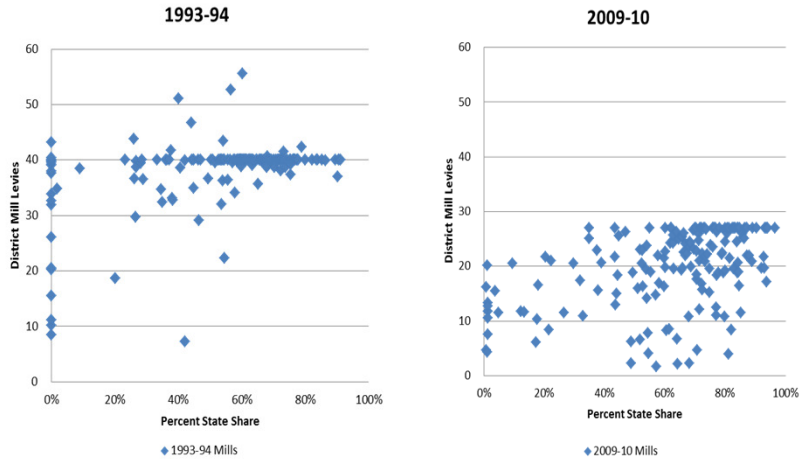


And Aged Care will Drive Medicaid Costs

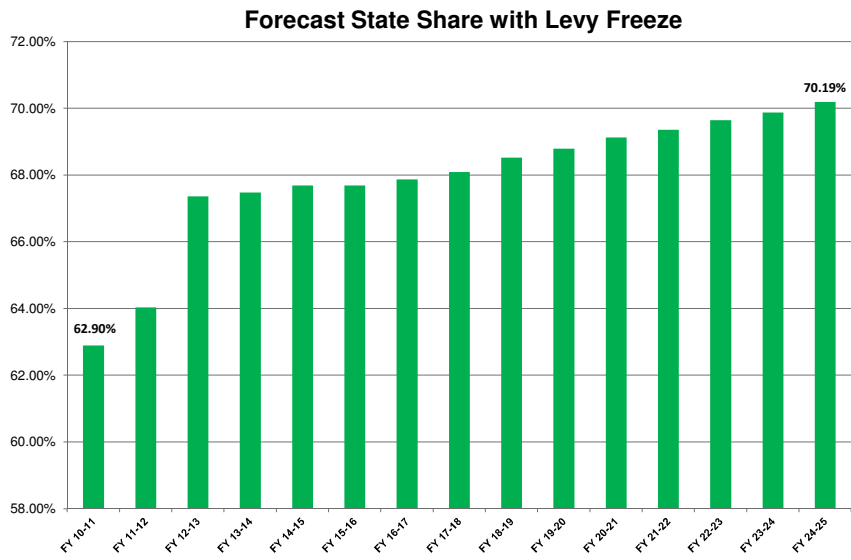
**State HCPF Expenditures by Division
FY 2011-12 to FY 2024-25**

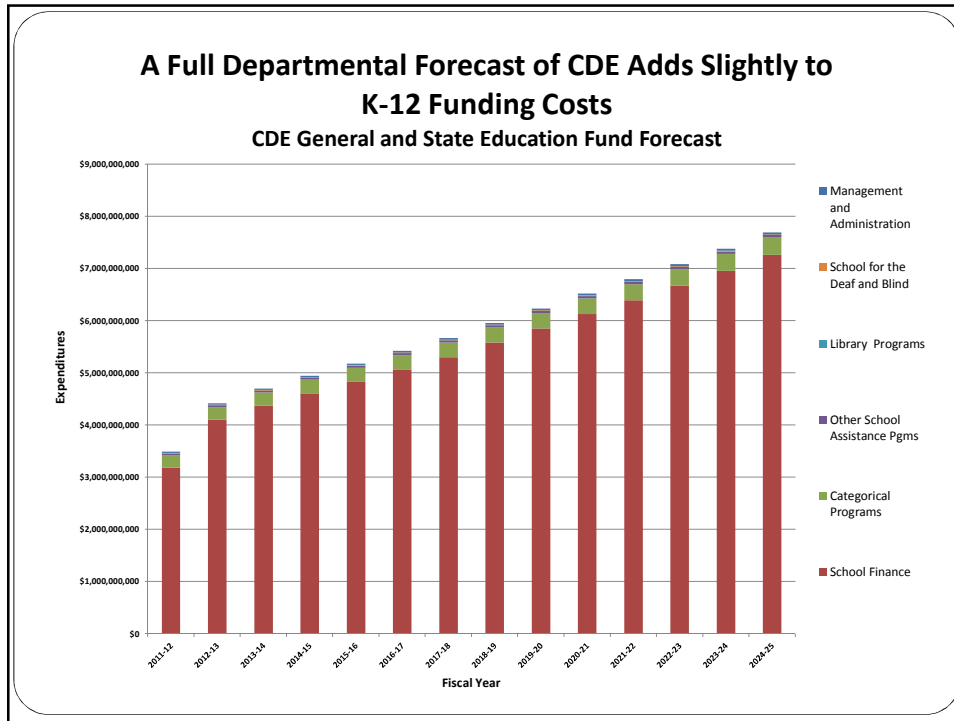


K-12 Local and State Shares: The Problem Illustrated



The State Share of School Finance will Continue to Grow





- ### Illustration: Can the Structural Imbalance be Addressed with Cuts?
- Objectives of a Package of Cuts
 - Protect receipt of federal funds
 - Health Care Policy and Financing
 - Human Services
 - Fund the constitutionally created offices within the executive branch as well as the other 2 branches
 - Attorney General
 - Governor
 - State Treasurer
 - Fund the Department of Corrections

Illustration: A Cut Scenario

- Although K-12 per pupil base funding is protected by Amendment 23, it is thought that formula “factors” can be cut.
- Factors add about 25% to adjust for variances among districts in:
 - Enrollment size
 - Cost of living
 - Proportion of at-risk students
- Although 25% is added by the factors, only about 20% can be cut without affecting the per pupil base of some districts

Illustration: Cut Methodology

- Absorb first round of cuts by cutting up to the maximum in K-12
- Once K-12 cuts are maximized, cut the remaining 10 departments to balance the budget (programs in parentheses are the largest funded by the General Fund within each department)
 - Agriculture (Agricultural Services Division)
 - Higher education (College Opportunity Fund)
 - Local Affairs (Divisions of Local Government and Housing)
 - Military and Veterans Affairs (maintenance and utility costs for 15 armories)
 - Natural Resources (Division of Water Resources)
 - Personnel and Administration (Division of Accounts and Control)
 - Public Health and Environment (Prevention and Disease Control and Epidemiology Divisions)
 - Public Safety (Division of Criminal Justice, CBI, Colorado State Patrol)
 - Regulatory Agencies (Civil Rights Division)
 - Revenue (Taxation Business Group)

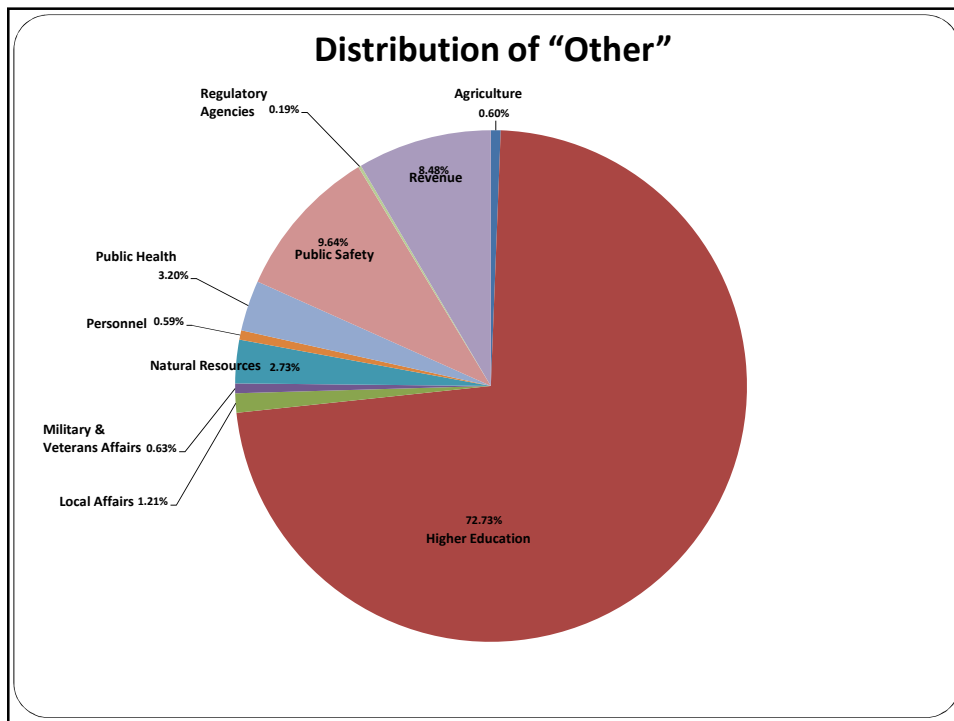
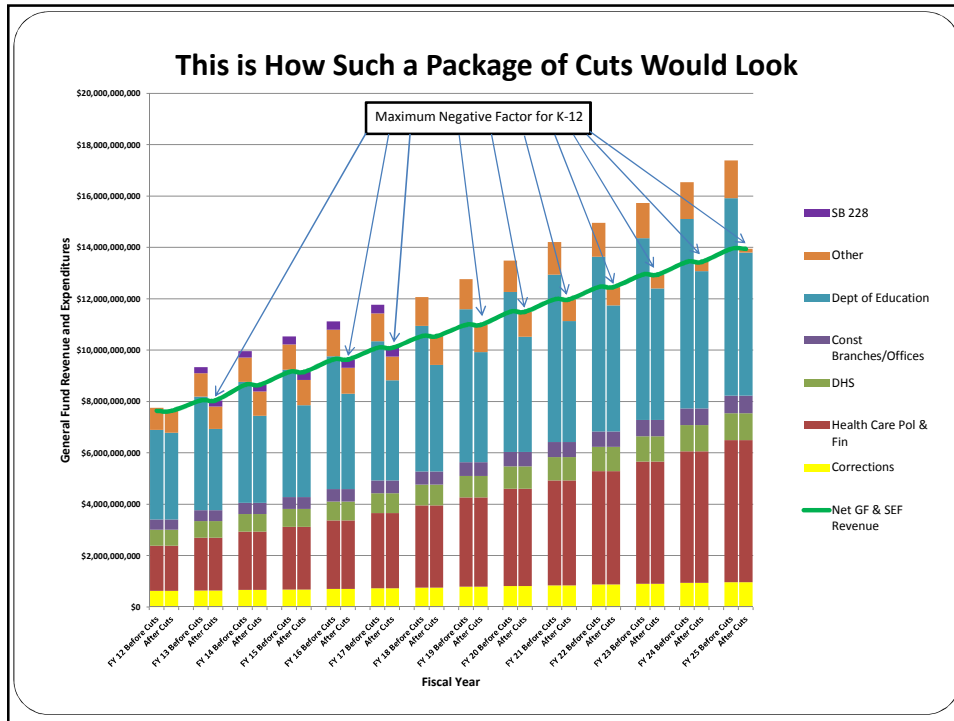


Illustration: Addressing the Structural Imbalance with Revenue

- Objectives of a package
 - Revenue sources that grow in step with future spending pressures (adequacy)
 - Revenues produced sufficient to fill the gap (capacity)
 - Revenue sources that reflect the structure of the economy (efficiency)
 - Revenue sources that are balanced
 - A balanced package would contain a mix of sources in which the strengths of each compensate for the weakness of others
 - Mitigate volatility
 - Address structural issues
 - Maintain or enhance the fairness of the tax system
 - Competitive with other states

Options for Addressing the Imbalance with Revenue

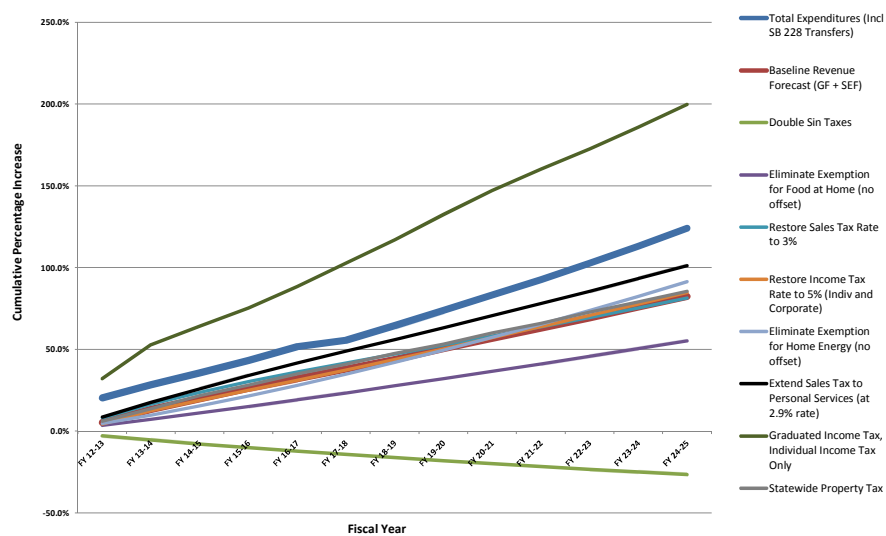
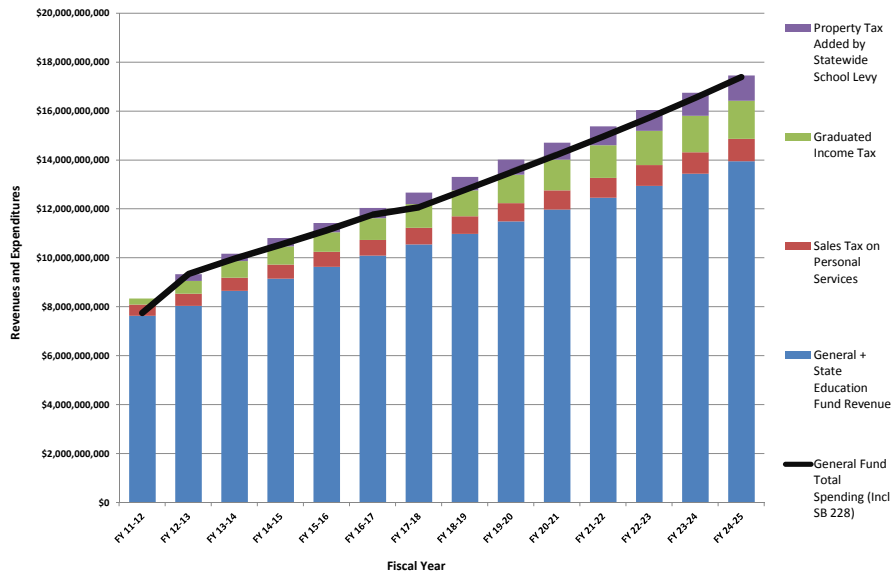
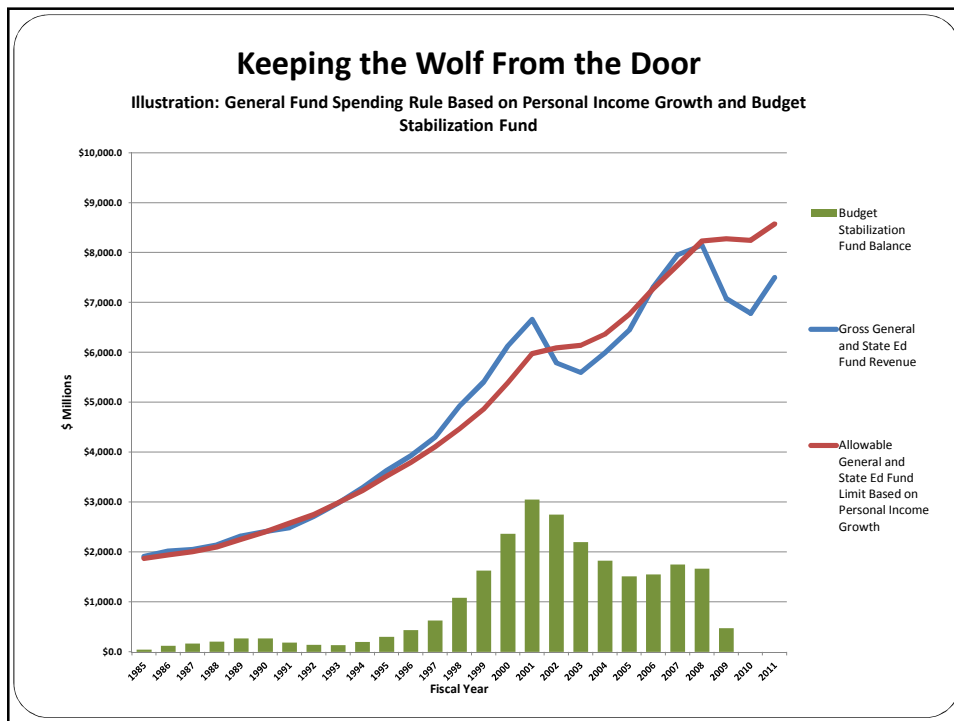
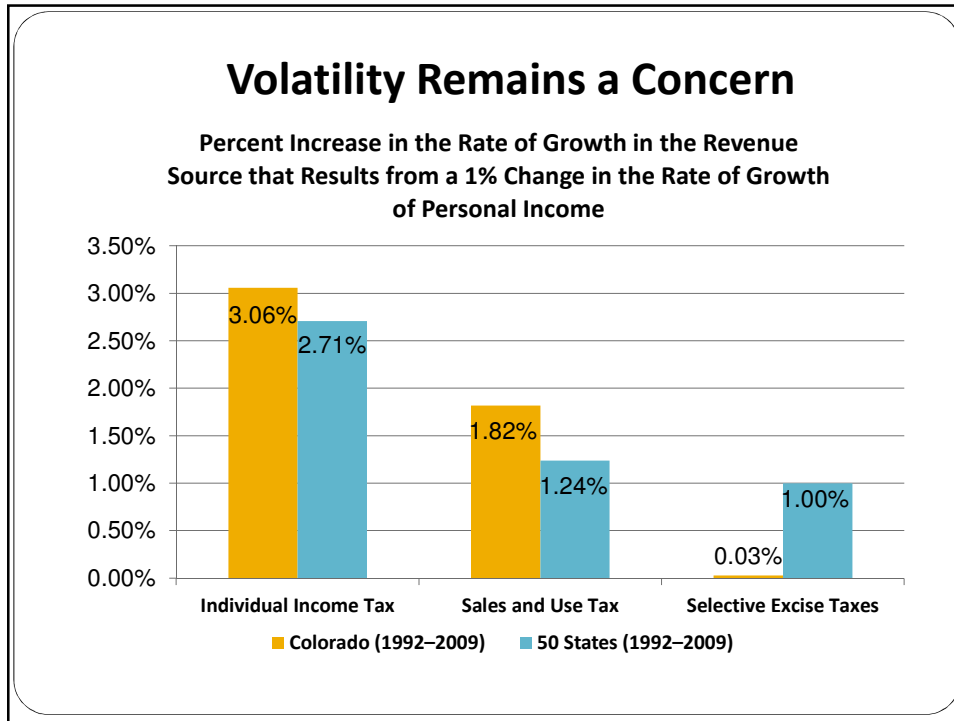


Illustration: Revenue Methodology

- Elements of a Package
 - Add personal services to the sales tax base
 - Levy property taxes for schools with a statewide mill levy
 - Phase statewide levy in for full implementation by FY 2024-25
 - Reduce state share from 63.2% to 60% over the phase-in period
 - Restore four graduated income tax brackets
 - Index the brackets to prevent “bracket creep”
 - Tax first \$50,000 of income (\$0 to \$50,000) at 4%
 - Tax next \$50,000 of income (\$50,000 to \$100,000) at 4.7%
 - Tax next \$100,000 of income (\$100,000 to \$200,000) at 5.4%
 - Tax income above \$200,000 at 6.1%

This is How Such a Package of Taxes Would Look





Minding the Store

- Forecasts are only as good as current assumptions and policies
 - Long term forecasting should be done routinely
 - Analyze policy changes for long term impact

- We agree with the GFOA recommendations
 - Financial capacity and long-term service objectives should be aligned
 - Longer term horizon - 10 years
 - Use revenue and expenditure forecasts, debt positions and monitoring mechanisms such as a scorecard of key indicators of financial health
 - Elected officials and the public should be able to easily grasp the government's long-term financial prospects and the strategies in place for achieving financial balance.

Want to hear this again?

www.du.edu/economicfuture

Thank You!

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