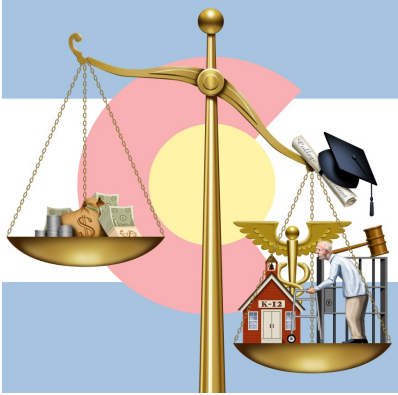



FINANCING COLORADO'S FUTURE

An Analysis of the Fiscal Sustainability
of State Government

UPDATE

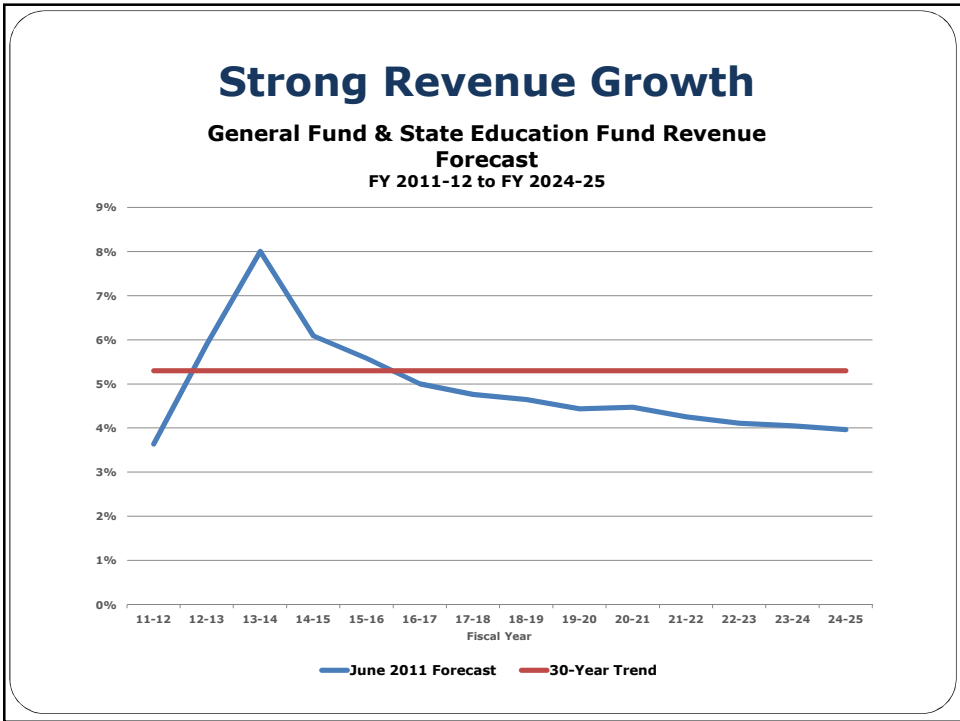
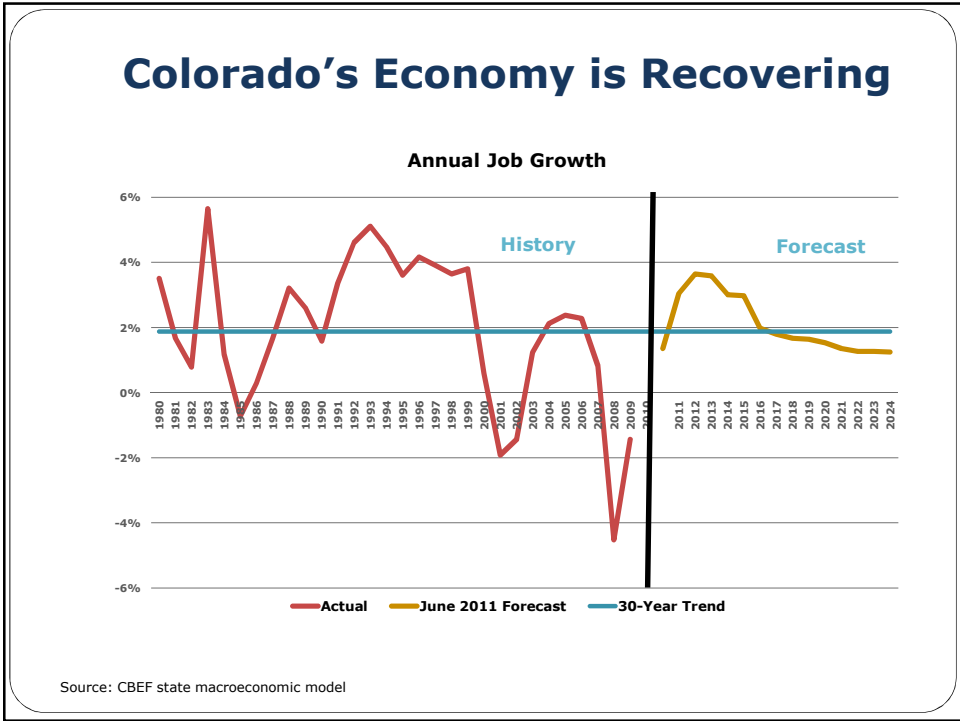


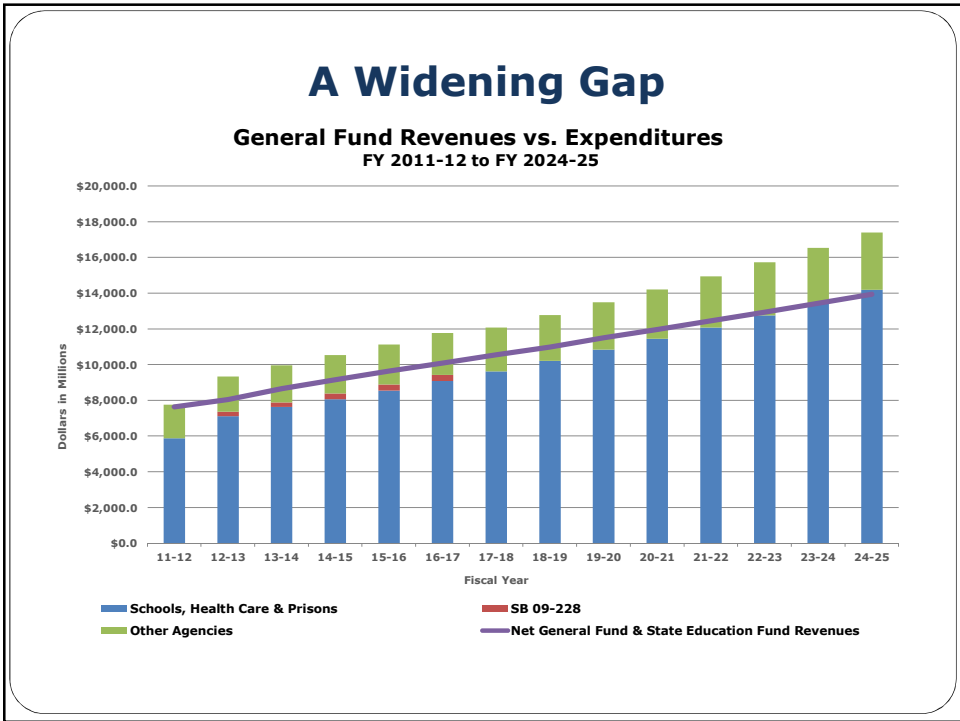
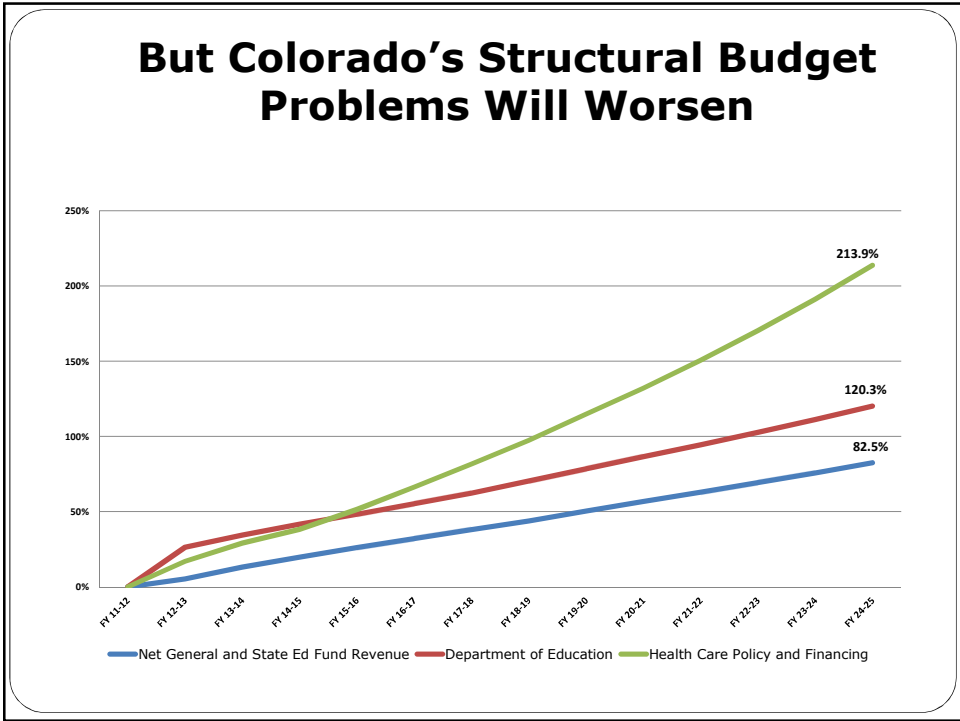
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Conclusions

1. Colorado has a severe structural imbalance that makes our financing system unsustainable.
2. Simple across-the-board budget cuts and/or tax rate increases will not solve the structural imbalance nor create a sustainable system.
3. Structural problems require structural solutions for both the service delivery and tax systems of state government.
4. Very difficult choices lie ahead for Colorado policymakers and citizens.
5. While the structural problems are daunting, they are not unsolvable. We do have a brief window of time to devise solutions.

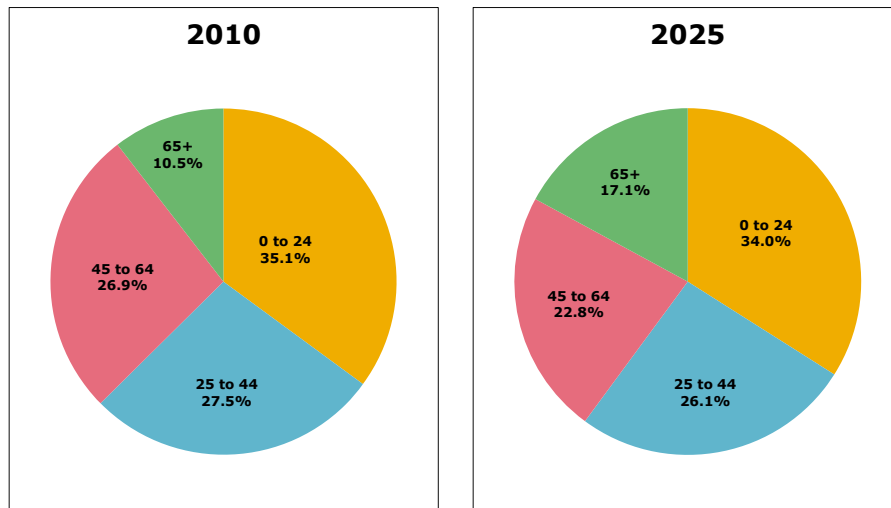




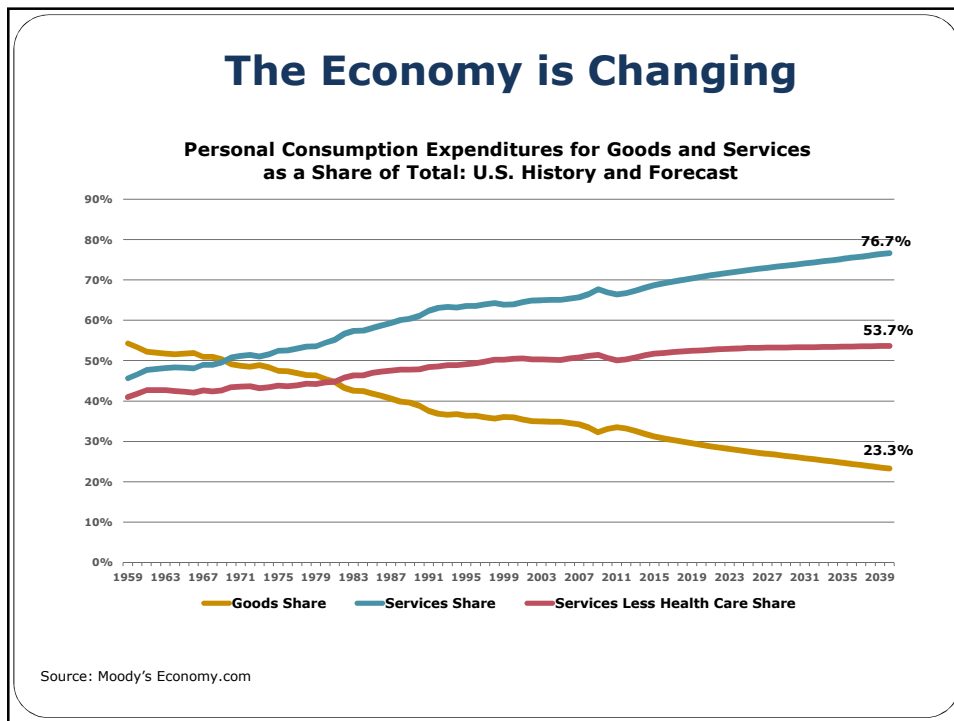
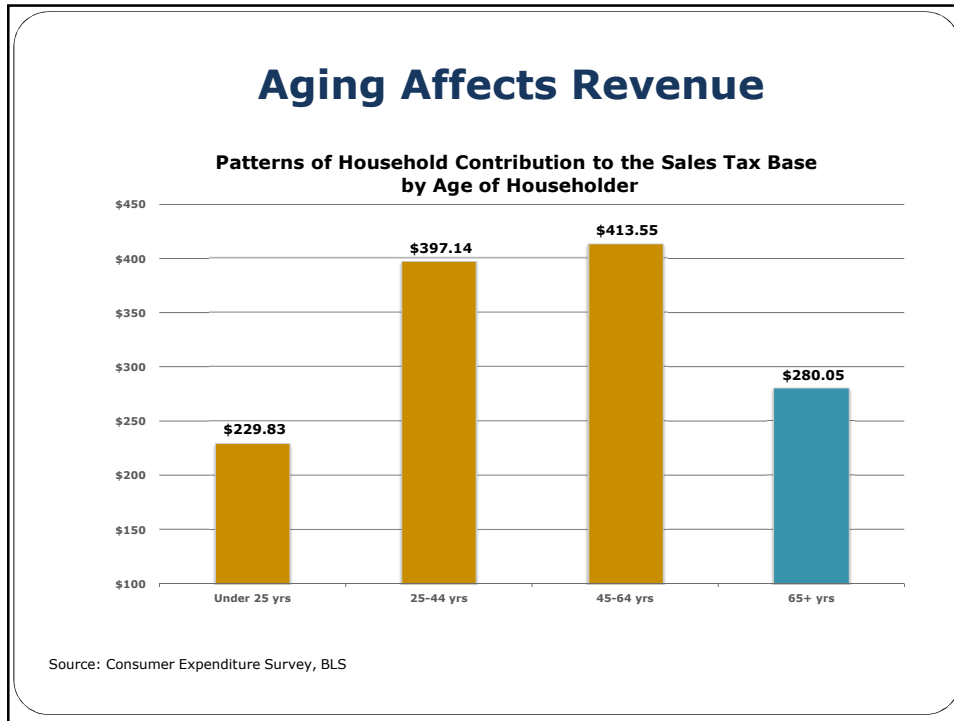
Diagnosis: What is Happening?

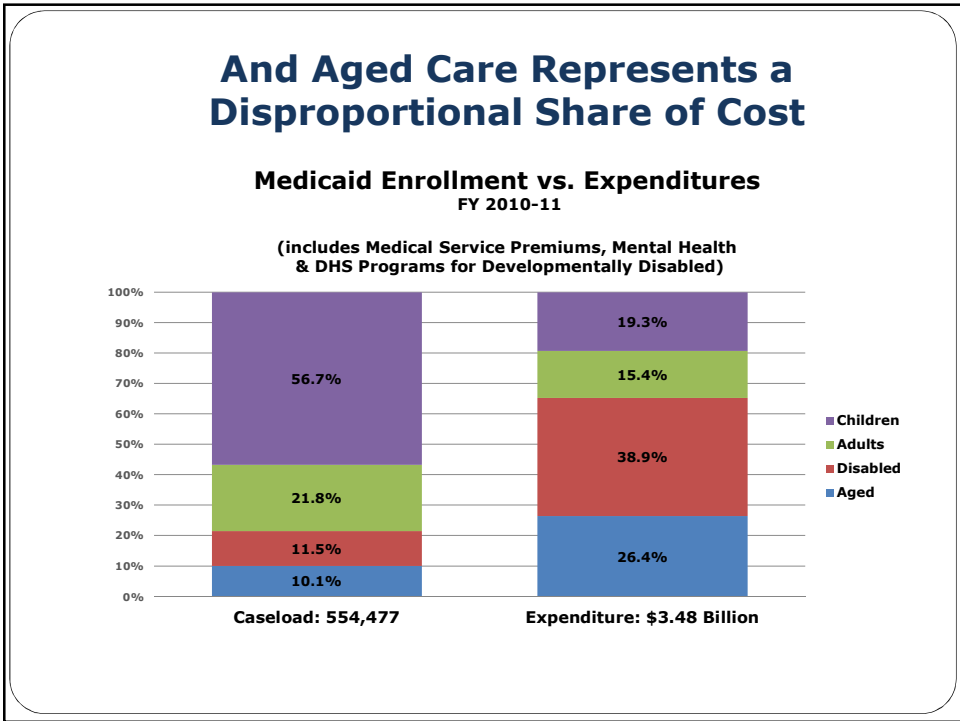
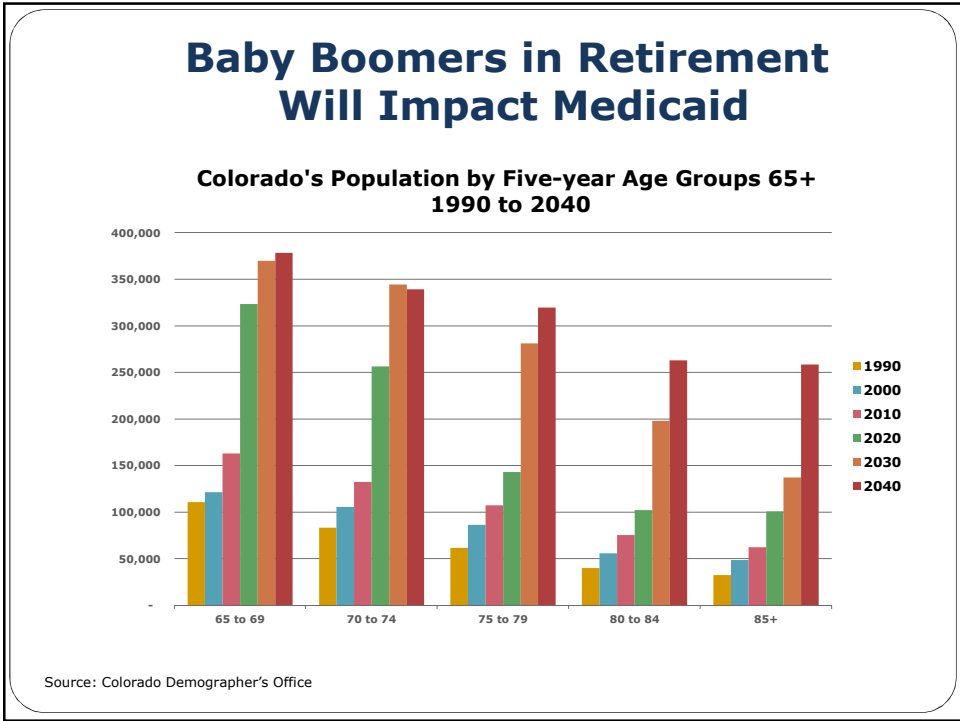
- Structural and demographic changes affect revenue
 - Aging baby boomers
 - Service-based economy
 - Tax system features
- Medicaid growing at 1.7 times revenue
 - Demographics
 - Inflation
- System paying for K-12 education is failing the state
 - Leakage in local property tax

Colorado is Aging



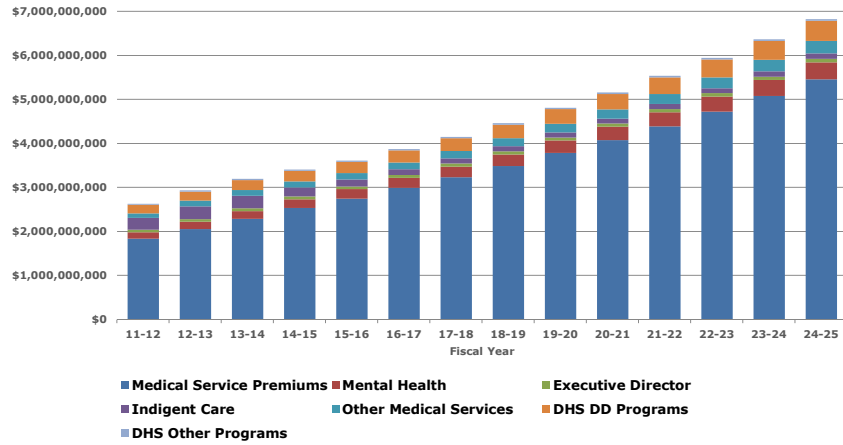
Source: Colorado State Demography Office





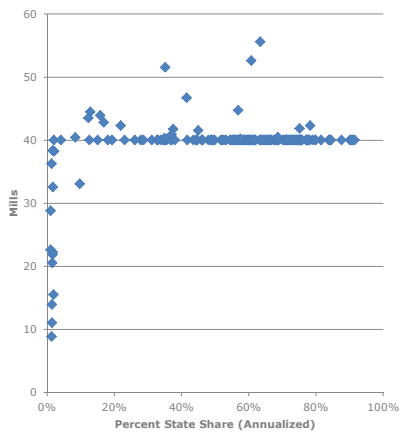
A Full Departmental Forecast Shows Growing Spending in Other Medicaid Programs

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

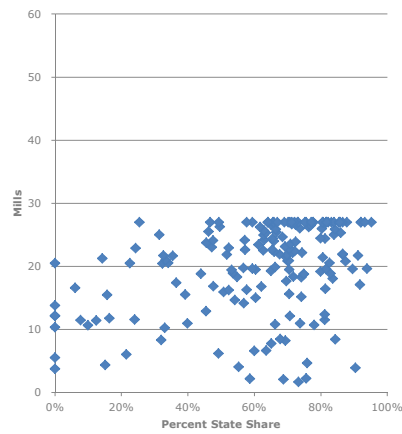


K-12 Local and State Shares: The Problem Illustrated

FY 1991-92



FY 2011-12



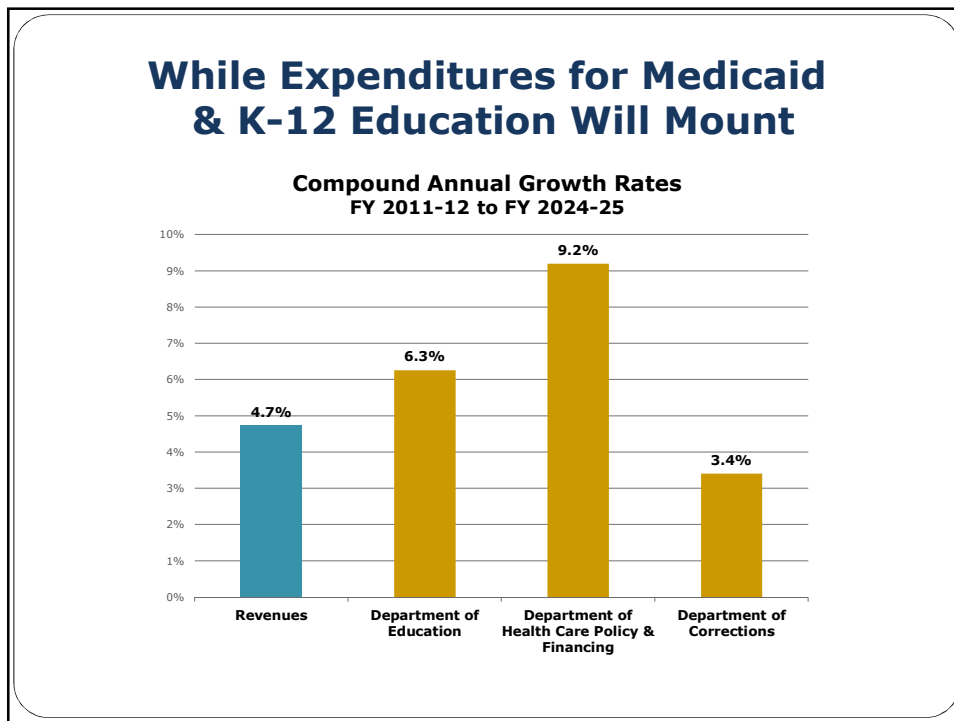
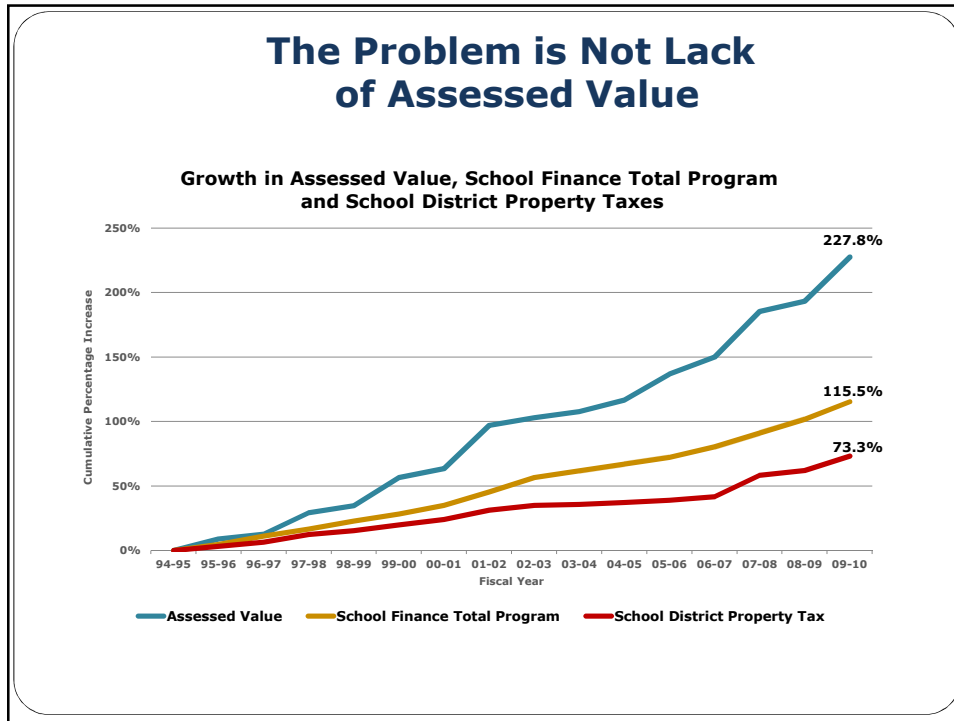


Illustration: How Could the Gap be Closed with Cuts?

Example: Application of a 20% Budget Cut

- If receipt of federal funds is protected
 - Health Care Policy and Financing
 - Human Services
- And the Legislative and Judicial branches and constitutionally created offices in the Executive branch and Department of Corrections are protected
- School finance would need to be cut by the negative factor each year and the maximum negative factor cut of 20% each year after FY 2017-18
- The remaining unprotected agencies would be cut by 90%, resulting in the elimination of General Fund support for Higher Education as well as many of the other 11 remaining departments

Illustration: Methodology of Closing the Gap With Taxes

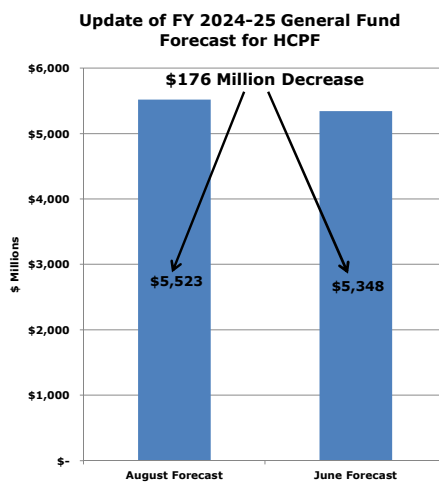
Example: Application of a 25% Tax Increase

- 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%

March Updates

- We will conduct a comprehensive revision of all models in May/June
- Data updates:
 - New State Demography Office population forecasts
 - Actual revenues for FY 10-11
 - New CBO estimates for Medicaid cost inflation by eligibility category
 - Actual CPI inflation for 2011
 - New LCS and OSPB forecasts
- New data drives changes to expenditure and revenue forecasts

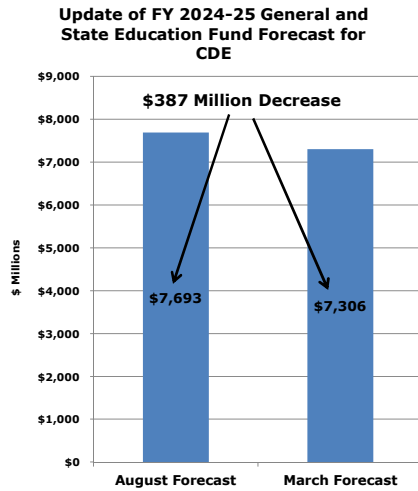
Impact of Updates on HCPF Forecast for FY 2024-25



Updates

- Reductions
 - Updated population forecast with slower growth in over 65 population
 - Lower CBO forecast of long term care costs
- Offsetting Increases
 - Higher Medicaid enrollments of disabled, adults, and children
 - Higher CBO forecast of acute care costs

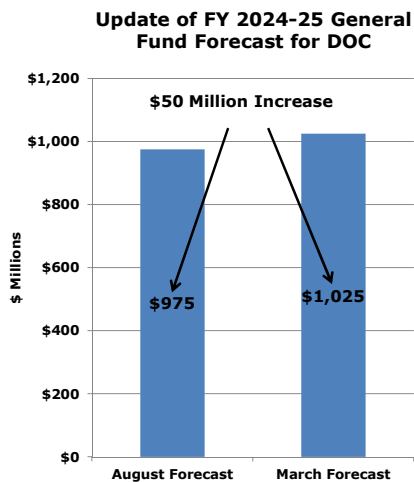
Impact of Updates on CDE Forecast for FY 2024-25



Updates

- Reductions
 - Slower growth in school age population from the revised forecast by the State demography Office
 - Higher actual assessed valuations establishing a higher base for the local share forecast
- Offsetting Increase
 - Higher inflation for 2011 raising the per pupil base

Impact of Updates on DOC Forecast for FY 2024-25

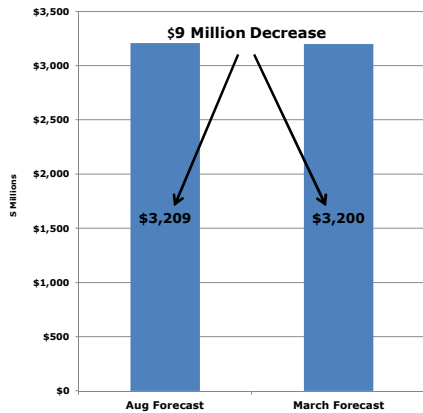


Updates

- Slower declines in inmate populations as indicated by more recent state forecasts
- Slightly higher cost per inmate than originally forecast

Impacts of Updates on Other General Fund Programs

Impact of Updates on Other General Fund Departments For FY 2024-25

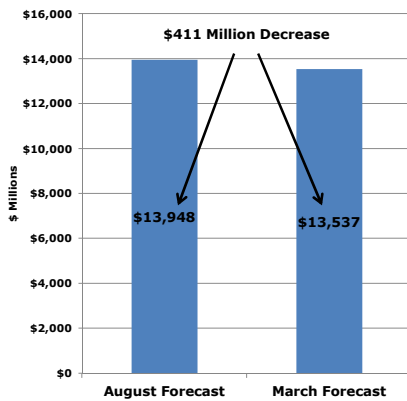


Updates

- Slower growth in population as reflected in revised State Demography Office forecast

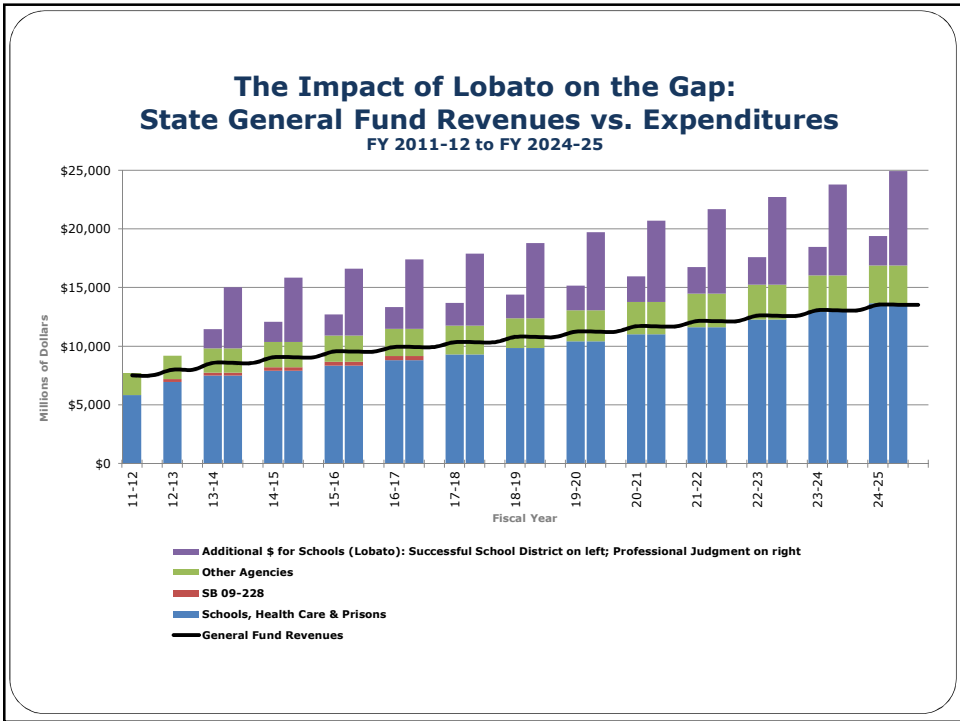
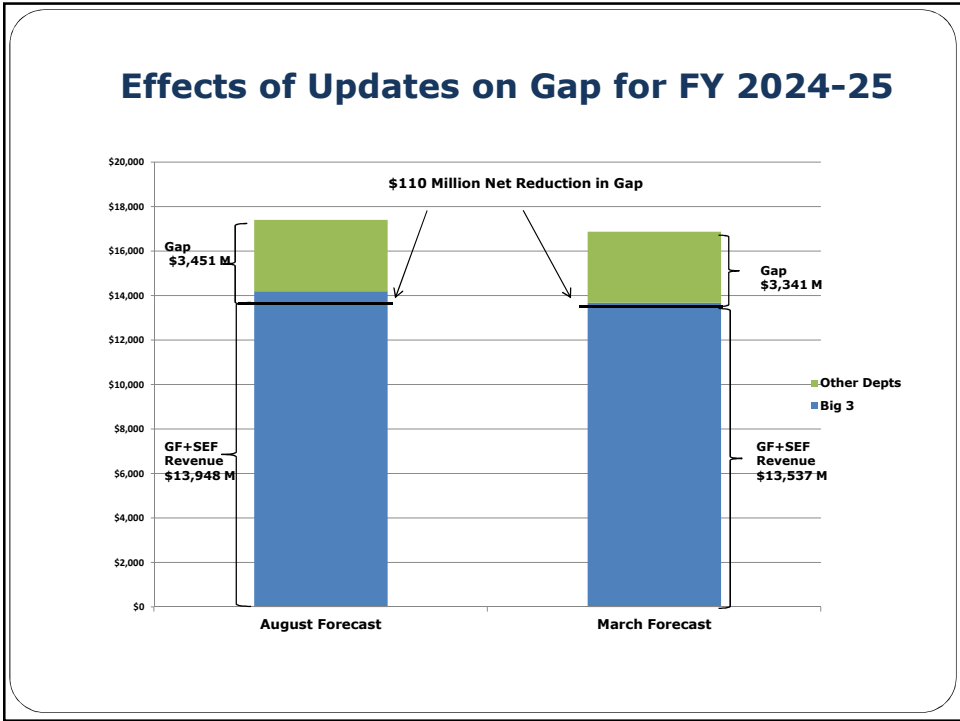
Impacts of Updates on General Plus State Education Fund Revenue Forecast

Update of Net General Plus State Education Fund Revenue for FY 2024-25



Updates

- Lower population forecast by State Demography Office reduce forecast for income and sales tax growth
- Alignment of short term forecasts with LCS and OSPB forecasts anticipate a slower short range recovery



Thank You

In addition to the direct support from the University of Denver, the following foundations supported this work:

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- Colorado Health Foundation
- Colorado Trust
- El Pomar Foundation
- Gates Family Foundation
- Kaiser Permanente
- Piton Foundation
- Rose Community Foundation



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