K-12 Education Budget Outlook

• School Finance Situation
• Colorado’s Budget Situation
• Where Are We Headed?
School Finance Formula

Total Program Funding = \[\text{State Funding} + \text{Local Share}\]

\[\text{State Funding} = \text{General Fund & SEF}\]
- Income Taxes
- Sales Taxes

\[\text{Local Share} = \text{Property} \& \text{Specific Ownership Taxes}\]

Federal Funds are separate from the formula.

SEF = State Education Fund.
Statewide Education Budget: Total Program Funding
Billions of Dollars

By Share

- Local Share
- State Share

By Formula

- Formula
- Actual
- Base

FY 2017-18

$6.65 billion
$262 million relative to FY 2016-17
11.1% below Formula with the “Budget Stabilization Factor”
State Education Fund near depleted
Improved General Fund budget outlook

Statewide Education Budget: Total Program Funding
Billions of Dollars

<table>
<thead>
<tr>
<th>By Share</th>
<th>By Formula</th>
<th>Average Funding per Pupil</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Formula: $8,619</td>
</tr>
<tr>
<td>Local Share</td>
<td></td>
<td>Actual: $7,662, +3.3%</td>
</tr>
<tr>
<td>State Share</td>
<td></td>
<td>Base: $6,546, +2.8%</td>
</tr>
<tr>
<td>$6.65 billion</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FY 2017-18
School Finance Formula: Total Program

Billions of Dollars

- $828M

Budget
Stabilization Factor

Actual Total Program

State + Local Share

FY 2009-10
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
Statewide Average Per Pupil Funding
Not adjusted for inflation

Source: Joint Budget Committee and Legislative Council Staff.
Education Budget: How did we get here?

• Legal Situation
  – The Constitution and school finance

• Financial Situation
  – Have not been able to catch up to where we were before the Great Recession

Colorado State Capitol, 1906
School Finance and the State Constitution

• **Gallagher Amendment (1982)**
  – 45% resident, 55% nonresident property tax base
  – Adjusts the residential assessment rate

• **TABOR (1992)**
  – Requires a vote to increase the residential assessment rate or mill levy
  – For district’s that have not “debruced,” requires mill levies to be reduced when revenue exceeds a district’s TABOR limit

• **Amendment 23 (2000)**
  – Requires “base funding” to increase
Market Value

- Residential: 75%
- Nonresidential: 25%

Target Share

- Residential: 45%
- Nonresidential: 55%
Declining Residential Assessment Rate and Mill Levies

Residential Assessment Rate

Statewide Average Mill Levy (right axis)

Estimated RAR

Source: Colorado Department of Local Affairs, Division of Property Taxation.
State and Local Shares of School Finance

State Share
- General Fund and State Education Fund
- FY 2017-18: 64%

Local Share
- Mostly Property Taxes
- 36%

Note: Prior to 1993, K-12 funding was allocated on a calendar year basis.
School Finance Formula

Total Program Funding = State Funding + Local Share Funding

State Funding:
- General Fund & SEF
  - Income Taxes
  - Sales Taxes

Local Share Funding:
- Property & Specific Ownership Taxes

Federal Funds are separate from the formula.

SEF = State Education Fund.
The State Budget: The Big Picture
FY 2017-18: $28.8 Billion in Total Operating Appropriations

<table>
<thead>
<tr>
<th>Source: Joint Budget Committee. Totals may not sum due to rounding.</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
</tr>
<tr>
<td>Cash Funds</td>
</tr>
<tr>
<td>Federal Funds</td>
</tr>
<tr>
<td>Reappropriated Funds</td>
</tr>
<tr>
<td>K-12</td>
</tr>
<tr>
<td>Health Care</td>
</tr>
<tr>
<td>Higher Education</td>
</tr>
<tr>
<td>Human Services</td>
</tr>
</tbody>
</table>
What the General Fund Pays For

FY 2017-18: $10.6 Billion in Total Operating Appropriations

General Fund 36.8%
Cash Funds 27.2%
Federal Funds 30.0%
Reappropriated Funds 6.0%

K-12 38.6%
Health Care 26.6%
Higher Education 8.4%
Human Services 8.2%

Source: Joint Budget Committee. Totals may not sum due to rounding.
sources: Colorado state controller’s office, joint budget committee staff, and legislative council staff. FY 2017 and FY 2018 figures are forecasts.

*Excludes newly eligible caseload funded by the federal government pursuant to the Affordable Care Act (adds 411,000 in FY 2015-16).
Colorado General Fund Budget Trends

Structurally Unsustainable Growth

Index FY 2000-01 = 100

State Share School Finance, 114%
Inflation + Population Growth, 100%
General Fund Appropriations, 97%
General Fund Revenue, 69%

Sources: Colorado State Controller’s Office, Joint Budget Committee Staff, and Legislative Council Staff. FY 2017 and FY 2018 figures are forecasts.
*Excludes newly eligible caseload funded by the federal government pursuant to the Affordable Care Act (adds 411,000 in FY 2015-16).
Colorado General Fund Budget Trends

Structurally Unsustainable Growth

Index FY 2000-01 = 100

Medicaid Caseload, 256%
Excludes newly eligible caseload under the Affordable Care Act*

Inflation + Population Growth, 100%

School Finance

State Share School Finance, 114%

General Fund Appropriations, 69%

Health Care Policy & Financing

General Fund Appropriations, 178%

Medicaid

General Fund Revenue, 97%

Sources: Colorado State Controller’s Office, Joint Budget Committee Staff, and Legislative Council Staff. FY 2017 and FY 2018 figures are forecasts.

*Excludes newly eligible caseload funded by the federal government pursuant to the Affordable Care Act (adds 411,000 in FY 2015-16).
Colorado General Fund Budget Trends

Structurally Unsustainable Growth

Index FY 2000-01 = 100

Sources: Colorado State Controller’s Office, Joint Budget Committee Staff, and Legislative Council Staff. FY 2017 and FY 2018 figures are forecasts.

*Excludes newly eligible caseload funded by the federal government pursuant to the Affordable Care Act (adds 411,000 in FY 2015-16).
Colorado General Fund Budget Trends

Structurally Unsustainable Growth

Index FY 2000-01 = 100

School Finance
Medicaid
Higher Education Funding
Infrastructure Funding

General Fund Appropriations, 178%

Medicaid Caseload, 256%
Excludes newly eligible caseload under the Affordable Care Act*

Health Care Policy & Financing
General Fund Appropriations, 97%

State Share School Finance, 114%

Inflation + Population Growth, 100%

General Fund Appropriations, 97%

General Fund Revenue, 69%

Highway Users Tax Fund Revenue, 51%

Sources: Colorado State Controller’s Office, Joint Budget Committee Staff, and Legislative Council Staff. FY 2017 and FY 2018 figures are forecasts.

*Excludes newly eligible caseload funded by the federal government pursuant to the Affordable Care Act (adds 411,000 in FY 2015-16).
State Budget Outlook: SB17-267

- Increases marijuana special sales tax to 15%
- Alters transportation funding
  - Eliminates remaining SB09-228 HUTF transfers and creates new lease purchase agreements
- Frees up General Fund moneys that otherwise would have been TABOR refunds
  - Repeals the Hospital Provider Fee and creates the Healthcare Affordability and Sustainability Enterprise
  - Reduces the Referendum C Cap
  - Makes the Senior Homestead Exemption a TABOR Refund Mechanism

Change in the General Fund Position:

<table>
<thead>
<tr>
<th></th>
<th>FY 2017-18</th>
<th>FY 2018-19</th>
<th>FY 2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10.5 million</td>
<td>$349.7 million</td>
<td>$270.3 million</td>
<td></td>
</tr>
</tbody>
</table>
Source: Colorado State Controllers Office and Legislative Council Staff, September 2017 Forecast.
“P” indicates preliminary. “F” indicates forecast.
General Fund Revenue

Billions of Dollars

September 2017 Expectations:
Bars and figures represent LCS Forecast
Dots represent OSPB Forecast

FY 2018-19: $666.5 million (or 6%) more available to spend or save

Source: Office of the State Controller; Legislative Council Staff and OSPB September 2017 revenue forecasts.
“p” indicates preliminary; “f” indicates forecast.
Where Are We Headed?

Economy growing
Revenue growing

Tough budgets will persist
• Growth is slowing
• Structurally unsustainable

Elevated Risk and Uncertainty
• Federal policy uncertainty
• Risk of recession

View from the Lincoln Memorial, Colorado State Capitol
Economic growth remains subdued by several factors

Cumulative Real GDP Growth
Indexed to Start of Recovery

- Dec. 1983 to June 1990
- Apr. 1991 to Feb 2001
- Dec. 2001 to Nov. 2007
- July 2009 to ...

Years of Recovery & Expansion Since Recession

Sources: U.S. Bureau of Economic Analysis.
Job growth continues to slow as the labor market tightens

Nonfarm Employment Growth
Year-over-Year Percent Change


Colorado
- 1.6%

U.S.
- 1.4%

Growth in the supply of labor has been subdued

Contributing factors:

• Business cycle
• Technological change
• Demographic change

Fewer people are working or seeking work

Labor Force Participation Rate, Age 16+

Demographic change has slowed economic growth

Selected Populations as a Share of the Total Colorado Population

Old Age Dependency Ratio
Ages 65+: Ages 20-64

Source: State Demography Office and U.S. Census Bureau, intercensal population estimates and 2014 population projections.
Incomes peak for those in their 40s and 50s

U.S. Average 2015 Incomes

Income taxes peak for those in their 40s and 50s

U.S. Average 2015 Taxes

Consumer spending rises and falls with age

U.S. Average 2015 Expenditures

School Finance Formula

Total Program Funding = State Funding + Local Share Funding

State Funding:
- General Fund & SEF
  - Income Taxes
  - Sales Taxes

Local Share Funding:
- Property & Specific Ownership Taxes

Federal Funds are separate from the formula.

SEF = State Education Fund.
What does it mean for state budgets?

State budgetary pressures are rising

- Declining per capita revenue
  - Income
  - Sales
  - Gas

- Rising demand for state services
  - Population growth
  - Aging infrastructure

Budget Pressures
General Fund Revenue
Per Capita Inflation-Adjusted

Source: Office of the State Controller & LCS September 2017 Revenue Forecast.
“P” indicates preliminary; “f” indicates forecast.
State expenditures will change as the population ages

- State and local pensions
- Health care
  - Low income elderly (Medicaid)
  - Higher insurance premiums for employers
- Shifts in demands for state services
  - Accessible transportation
- Shifts in support for services
  - Education
Elevated Risks and Uncertainties

• Federal policy changes could have significant state-level impacts
  – Income Tax
  – Health Care
  – Education
  – Infrastructure spending
  – Monetary policy normalization

• In a mature economic expansion, the risk of recession rises
  – Elevated geopolitical risks and cybersecurity pose threats to the outlook
Summary and Takeaways

Expectations for the next two years...

• Constitutional and economic budget constraints will persist
• More money available in the General Fund
  – Revenue is expected to rise in the near term
  – SB17-267 alleviated some budgetary pressure
• More competition for General Fund moneys

• The budget stabilization factor will be in play, the question is how much?
• Elevated risks and uncertainties cloud this outlook

...Stay tuned for the December forecast.
Kate Watkins
kate.watkins@state.co.us
303-866-3446
leg.colorado.gov/lcs