Education Budget Outlook

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Outlook for the Education Budget

• Where does the money come from?
• Where are we?
• How did we get here?
• Where are we going?
Where does the money come from?
FY 2016-17

State Funding = Total Program Funding
Minus
Local Share

*SPSF = State Public School Fund. SEF = State Education Fund. SOT = specific ownership tax.
Where are we?

**11.5% lower than formula without “negative factor”**

*SPSF = State Public School Fund. SEF = State Education Fund. SOT = specific ownership tax.

**Assumes adoption of supplementals.**
Where are we?
Local Share Falling or Slowing

Property Tax Assessed Values, $Billions
Includes Tax Increment Financing, not adjusted for inflation

Source: Legislative Council Staff December 2016 Forecast; Colorado Division of Property Taxation.
Change in Assessed Values by Region, Tax Year 2017

Source: Legislative Council Staff December 2016 forecast.
Where are we?
State Education Fund Close to Depleted

State Education Fund Year-End Balance

Millions of Dollars
Assumes adoption of supplementals

Source: Colorado Office of the State Controller, JBC Staff, and Legislative Council Staff
2017 Report on the State Education Fund
Where are we?

State Education Fund close to depleted…

State Education Fund Year-End Balance

Millions of Dollars

…requiring new funding to come from the state’s share

New General Fund Over Prior Year

Millions of Dollars

Source: Colorado Office of the State Controller, JBC Staff, and Legislative Council Staff
2017 Report on the State Education Fund
Where are we?
General Fund in Budget Cutting Mode

Change in General Fund Revenue & Obligations
FY 2016-17 to FY 2017-18, $Millions

- New Revenue: $509.3 million
- New Obligations:
  - Revenue Available for Other Obligations: $215.7 million
  - Refill Reserve to 6.5%*: $169.2 million
  - Other Constitutional Spending: $256.5 million
  - Set Aside for TABOR Refund: $-77.4 million
  - Capital Cons. & Transportation: $-64.2 million

*$ Assumesh $169.2 million FY 2016-17 shortfall is addressed by reducing the reserve and no change in operating appropriations between FT 2016-17 and FY 2017-18.
Education Budget: How did we get here?

• Legal situation
  – The Constitution and school finance

• Financial situation
  – Will likely not catch up from the great recession before the next recession

Colorado State Capitol, 1906
How did we get here?
The Constitution & School Finance

• **Gallagher Amendment**
  - 45/55 Property Tax Base Ratio
  - Adjusts the Residential Assessment Rate

• **TABOR**
  - 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**
  - Requires “Base Funding” to Increase
State Constitution constraining local share....

Residential Assessment Rate and School Finance Mill Levy

Source: Colorado Department of Local Affairs, Division of Property Taxation
...and applying pressure on the state budget

Relative State and Local Shares of School Finance

Note: Prior to 1993, K-12 funding was done on a calendar year basis.
…in turn, applying pressure on school districts

School Finance Total Program

\[
\text{Total Program without Negative Factor/Recission}
\]

\[
\text{Total Program with Negative Factor/Recission}
\]

Source: The Office of the State Controller & LCS, OSPB December 2016 Revenue Forecasts.
Meanwhile, economic and demographic factors have also applied pressure to the state budget...

Caseload Growth and the General Fund
Index FY 2000-01 = 100


*Excludes newly eligible caseload funded by the federal government pursuant to the Affordable Care Act, which added an additional 411,000 in FY 2015-16.
...while the State Constitution has again begun to constrain state revenue.

**TABOR and Referendum C**

Billions of Dollars

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Source: Colorado State Controllers Office and Legislative Council Staff, December 2016 Forecast.
Property Taxes in Colorado

Actual Values × Assessment Rate = Assessed Values

7.96% Residential*
29% Nonresidential

Assessed Values × Local Mill Levy = Taxes Owed

*2016 Residential Assessment Rate
Residential Market Value

Residential Assessment Rate %
Actual (Market) Values
The Colorado Property Tax Base

Annual Non-Residential Growth = 2.0%

Annual Residential Growth = 8.6%

Source: Division of Property Taxation and Legislative Council Staff forecast.
*Calculated as assessed values divided by an assumed 29 percent assessment rate.
Assessed Values
Actual Values × Assessment Rate = Assessed Values

Non-Residential
29% assessment rate

Target Percentage

Residential
7.96% assessment rate

Source: Division of Property Taxation and Legislative Council Staff forecast.
Assessed Values
with Required Residential Rate Reductions

Non-Residential
29% assessment rate

Residential
7.96% assessment rate

Target Percentage

Source: Division of Property Taxation and Legislative Council Staff forecast.
Assessed Values with Required Residential Rate Reductions

Non-Residential
29% assessment rate

Residential
7.96% assessment rate

Source: Division of Property Taxation and Legislative Council Staff forecast.
## Two Independent Sets of Expectations

<table>
<thead>
<tr>
<th>Change in</th>
<th>Legislative Council</th>
<th>Division of Property Taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Res. Market Values</td>
<td>12.6%</td>
<td>18.0%</td>
</tr>
<tr>
<td>RAR</td>
<td>6.85%</td>
<td>6.56%</td>
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<tr>
<td>Assessed Values</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>-3.1%</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Non-residential</td>
<td>2.5%</td>
<td>9.0%</td>
</tr>
<tr>
<td>FY 2017-18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>$385 million</td>
<td>less $27.4 million*</td>
</tr>
</tbody>
</table>

Source: Legislative Council Staff, Division of Property Taxation, and Office of State Planning & Budgeting.

*Adjusted for difference in property tax expectations and 2.8% inflation.
Where are we going? Tough Budgets will Persist

- Revenue growth slowing
  - Slower economy
  - Demographic changes
  - State Constitution
- Budget pressures rising

Colorado State Capitol, Reflected on the Windows of the Joint Budget Committee
Where are we going?

Several factors will continue to slow economic growth.

1) Full employment
2) Demographic change
3) Rising inflationary pressures and interest rates
4) Subdued global demand

Risks to the forecast are skewed to the downside on elevated global political uncertainty.
Where are we going?

A rising share of the population is age 65+

Prime Working-Age Population (25 to 54)
Share of Total U.S. Population

Old Age Dependency Ratio
65+: Ages 20 to 64

Source: U.S. Census Bureau, intercensal population estimates and 2014 population projections.
Consumer spending rises and falls with age

Average 2015 Expenditures

The Impact of the Aging U.S. Population on State Tax Revenues, Alison Felix and Kate Watkins; https://www.kansascityfed.org/publications/research/er/archive
Incomes peak for those in their 40s and 50s

Average 2015 Incomes

The Impact of the Aging U.S. Population on State Tax Revenues, Alison Felix and Kate Watkins; https://www.kansascityfed.org/publications/research/er/archive
Taxes peak for those in their 40s and 50s

Average 2015 Taxes

The Impact of the Aging U.S. Population on State Tax Revenues, Alison Felix and Kate Watkins; https://www.kansascityfed.org/publications/research/er/archive
Expectations for revenue were increased slightly relative to the September forecast.

General Fund Revenue

*Billions of Dollars*

Source: Office of the State Controller and Legislative Council Staff December 2016 revenue forecast.
General fund revenue is projected to grow at a rate consistent with inflation and population growth.

General Fund Revenue

*Inflation-Adjusted, per Capita*

Source: Office of the State Controller and Legislative Council Staff December 2016 revenue forecast.
Where are we going?

Aging will shift state expenditures

↑ State and local pensions

↑ Health care services
   - Low income elderly (Medicaid)
   - Higher insurance premiums for government employers

↑ Shifts in demands for certain services
   - Accessible transportation
   - Home health

↓ Shifts in support for services
   - Education

The Impact of the Aging U.S. Population on State Tax Revenues, Alison Felix and Kate Watkins
Available at: https://www.kansascityfed.org/publications/research/er/archive
Summary

• Where are we?
  – 11.5% lower than formula
  – Local share falling or slowing
  – State Education Fund close to depleted
  – General Fund budget in cutting mode

• How did we get here?
  – Business cycle, demographic changes, and constitutional requirements

• Where are we going?
  – Slower revenue growth
  – Greater pressure on expenditures
FY 2016-17 State Operating Budget Overview

$27.1 Billion

- K-12 Education: $5.5 billion
- Higher Education: $4.1 billion
- Health Care Policy and Financing: $9.1 billion
- General Govt.*: $1.5 billion
- Federal Funds: $8.1 billion
- Cash Funds: $7.5 billion
- Reappropriated: $1.5 billion
- General Fund: $10.0 billion

*General Government: Governor, Legislature, Law, State, Personnel & Administration, Revenue, and Treasury

Source: Joint Budget Committee.
What the General Fund Pays For

FY 2006-07, $6.8 Billion

- 42%, P-12 Education
- 10%, Higher Education
- 20%, Health Care Policy & Fin.
- 9%, Judicial
- 9%, Corrections
- 9%, Human Services
- 6%, Other

FY 2016-17, $9.9 Billion

- 38%, P-12 Education
- 27%, Health Care Policy & Fin.
- 8%, Human Services
- 9%, Higher Education
- 8%, Corrections
- 5%, Judicial
- 6%, Other

Totals may not sum due to rounding.
Source: Joint Budget Committee. Excludes transfers for transportation and capital construction.
Percent Change in School Enrollment by Economic Region
Current School Year, 2016-17
Percent Change in School Enrollment by Economic Region
2017-18 School Year
State & Federal Medicaid Expenditures*

Billions of Dollars

FY 2014-15 Expenditure Shares**

- Adults 65 and older (19.8%)
- Parents/Caretakers (13.3%)
- Adults without children (18.7%)
- Pregnant women (3.4%)
- Disabled individuals (24.7%)
- Children (17.6%)
- Foster care (1.7%)
- Breast/Cervical cancer (0.1%)
- Non-U.S. citizens (0.8%)

Source: Joint Budget Committee Staff. p=Projection. *Amounts include supplemental payments to providers and financing mechanisms. **FY 2014-15 expenditure shares by population shown in parentheses.
Medicaid Enrollment

FY 2014-15 Enrollment Shares*
- Adults 65 and older (6.0%)
- Parents/Caretakers (20.1%)
- Adults without children (20.8%)
- Pregnant women (1.4%)
- Disabled individuals (6.9%)
- Children (42.7%)
- Foster care (1.7%)
- Breast/Cervical cancer (0.03%)
- Non-U.S. citizens (0.2%)
