Financing Colorado’s Future – A Fresh Look at the Funding of State Government

The Current Model Reveals a Better Picture than 2011 Analysis

In Millions

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Legend:
- TABOR refunds
- SB 228 HUTF and CC
- K-12, HCPF and Corrections
- Additional GF for Medicaid
- Reserve
- SUBTOTAL all other inputs
Although Better, Colorado’s Finances Remain Structurally Broken

Cumulative Growth Rates from FY 13-14 through FY 29-30 for GF and SEF Revenues, CDE, and HCPF

What is Driving These Conclusions?
Echo of the Recession: Federal Reserve Policy Supporting State Revenue Growth

- Unprecedented Levels of Monetary Stimulus
- Robust Equity and Housing Market Recovery
- Investment- and Real Estate-Related Activity Increases
- Robust Recovery in State Revenue, Particularly Individual Income Tax
- Gap Smaller than Previously Forecast

Revenue Recovery More Robust

General Fund Revenue Forecast Comparison:
CFC 2011 and 2013 Forecasts to December 2013 LCS and OSPB Forecast
Spread Between Individual Income Tax and Personal Income Growth Unlikely to Sustain

Growth in Colorado Individual Income Tax and Colorado Personal Income

However, Sales Tax Will Continue to Degrade

CAAGR 1980 – 2012: 4.76%
CAAGR 2013 – 2030: 4.01%
Echo of the Recession: Student Loan Debt Looms Large
Nationally Student Loan Debt Approaching $1 Trillion

In Trillions

Source: Federal Reserve Bank of NY

Especially in This Time of Deleveraging
Sources of Household Debt Other than Mortgage Debt

In Trillions

Calendar Year

Source: Federal Reserve Bank of New York
And Elevated Youth Unemployment Will Impact Future Earnings

Youth Unemployment: U.S.

Sales Continue Their Steady Shift to E-Commerce

E-Commerce as a Share of Total U.S. Sales

Source: BLS

Source: Census Bureau
Consumption Will Continue to Shift to Services

Share of Personal Consumption Expenditures Dedicated to Goods and Services

Source: BLS and Moody's Economy.com

And, Finally, Coloradans Are Still Aging, Which Affects All Revenues

Source: Colorado State Demographer
Still, General Fund Revenue Forecast Falls Short of Historic Growth Rates

Percent Change in General Fund Revenue: History and Forecast

Echo of the Recession: Lower Inflation and Population Growth Alleviate Pressure on Programs, Particularly K-12 and Medicaid

- Inflation Below Fed Target and Household Formation Delayed
- Fewer K-12 Enrollees, Lower Inflationary Increase in Per Pupil Funding and Less Cost Pressure on Medicaid Caseloads
- K-12 and Medicaid Spending Projected to Grow Less than Previously Forecast
- Gap Smaller than Previously Forecast
In General, Inflation Pressures Waned
Inflation Forecast Comparison: 2011 Model to 2013 Model

And the Recession Delayed Household Formation and Reduced Fertility Rates
Under 18 Forecast Comparison: 2011 to 2013

Source: State Demography Office
Comparison of August 2011 and November 2013 General Fund Spending Forecasts by Departments

System of Financing K-12 Education Remains Broken

1993-94

2012-13
Other Changes Since the Last Study

- Recessionary cuts to departments restored in part
- New spending frequently one-time or short-term in nature
- Reserve “savings” increased for both the General and State Education Funds
- Old Hire Fire and Police Pension Fund obligation paid off years in advance
- Revenue reductions made permanent (EITC, Child Credit)
- Elderly and Disabled Veteran Homestead exemption restored

Colorado Tax Policy: Funding Mechanism for 2009 and 2013 Medicaid Expansions Trigger General Fund Refund

- Hospital Provider Fee Created Legislatively in 2009 to Cover Costs of Various Medicaid-Related Programs
- Hospital Provider Fee Selected as Mechanism to Fund State Share of Medicaid Expansion Cost Under the ACA
- Inclusion of Hospital Provider Fee as a Revenue Subject to TABOR Soley Responsible for Forecast TABOR Refunds
- Gap Increases Because General Fund Pays for TABOR Refunds
Policy Contributing to the Gap: TABOR Refunds Return in 2017

Refunds are taken from the General Fund and thus contribute to the gap.

Refunds Caused Solely by Hospital Provider Fee
And Contribute Significantly to Gap
Gap Forecast, with and without TABOR Refunds

TABOR Refunds begin in FY 2017

By 2030, HPF-Driven TABOR Refunds
Account for 31.02 Percent of Gap
Share of Gap for which HPF-Driven TABOR Refunds are Responsible
Balancing Gap by Cutting Other Departments

Percentage Shares of Other Departments
(Adjusted to Remove One-Time Spending)
TABOR and Sales Tax Changes Provide an Almost Complete Short-Term Solution

Closing the Gap by Eliminating TABOR Refund and Extending Sales Tax to Personal Services

Closing the Remaining Gap…

- Requires addressing school finance
  - Address local share of school funding
  - Address the structure of the property tax system

- Options will require
  - Better balancing state/local partnership for funding schools
  - Developing a replacement funding model for schools
Risks to the Forecast

- Recession
  - One-time use of reserves can help lessen effects
- Policy actions and citizen initiatives that add to structural imbalance
- Long term pension liabilities
- Taking eye off the ball – gap closing but could reverse
  - Changes in federal tax/spending policy
  - Federal reserve stimulus policy
  - Reversals in the population and inflation forecasts

Recognizing the contributions and expertise of other members of the CFC research team:

**Steven Fisher, PhD – Economic Modeling**

**Deb Godshall – School Finance**

**Warren Olson – Health Care and Corrections**
Access the Report and Supplemental Materials at http://coloradofutures.colostate.edu

Colorado Futures Center at Colorado State University’s community outreach is supported by The Colorado Trust is a health foundation dedicated to achieving health equity.

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Supplemental Materials

Our View of the World in 2011

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- 6,000
- 8,000
- 10,000
- 12,000
- 14,000
- 16,000
- 18,000
- 20,000

In Millions

Big 3
SB 228
Other Agencies
GF+SEF Revenue
2011 Model: Source of the Structural Imbalance

Cumulative Growth Rates from FY 11-12 through FY 24-25 for General and State Education Fund Revenues and Departments of Education and Health Care Policy and Financing

Current Employment Forecast Less Optimistic

Forecast Comparison:
Wage and Salary Employment
And Shift Occurring in All Sectors

E-Commerce as a Share of U.S. Total and Specific Industry Sales

![Graph showing E-Commerce as a Share of U.S. Total and Specific Industry Sales](image)

Source: Census Bureau

Comparison of August 2011 and November 2013

General Fund Spending Forecasts for Three Largest Departments

![Graph showing Comparison of August 2011 and November 2013 General Fund Spending Forecasts for Three Largest Departments](image)