



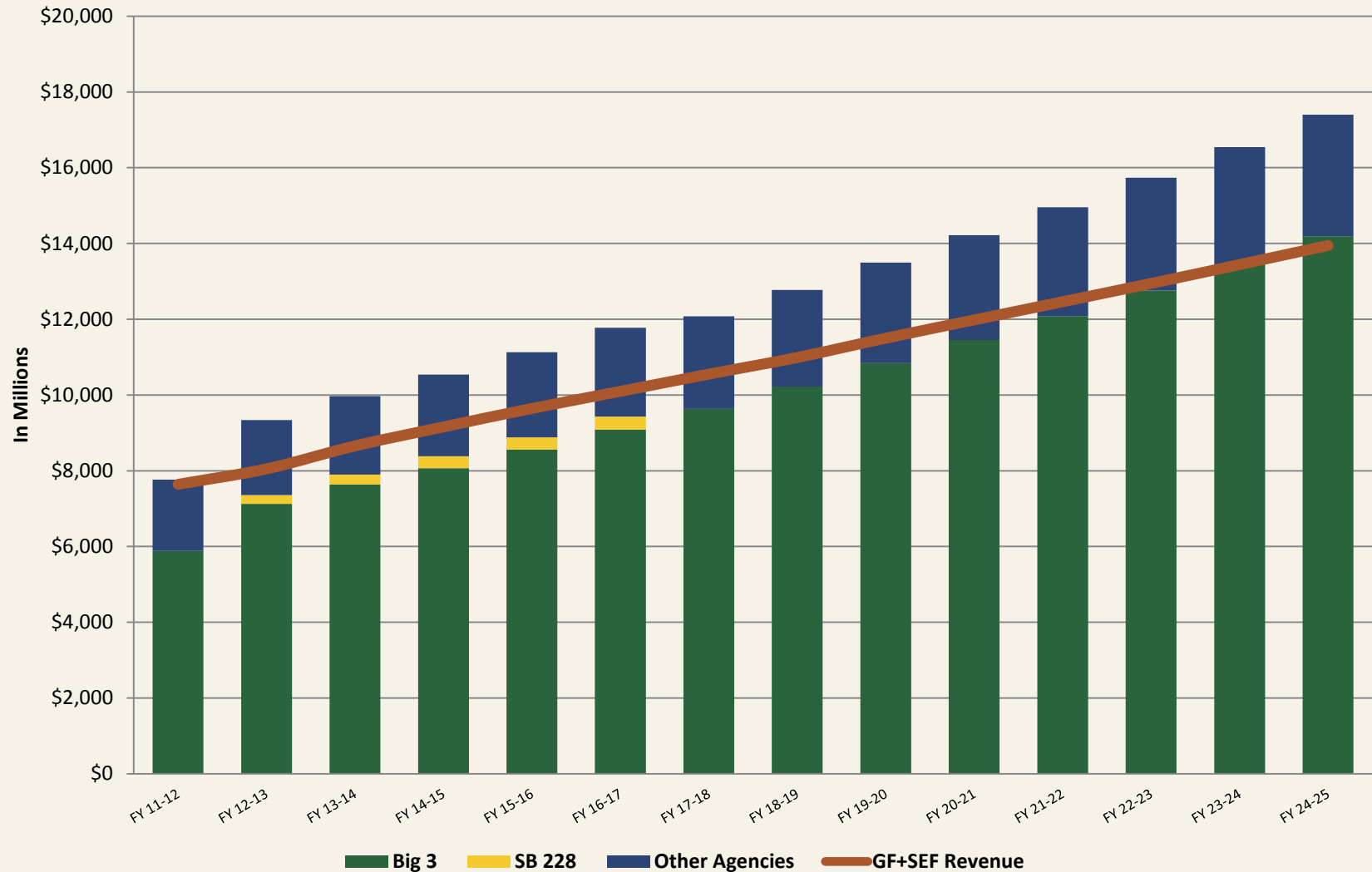
COLORADO  
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*Financing Colorado's Future – A Fresh  
Look at the Funding of State  
Government*

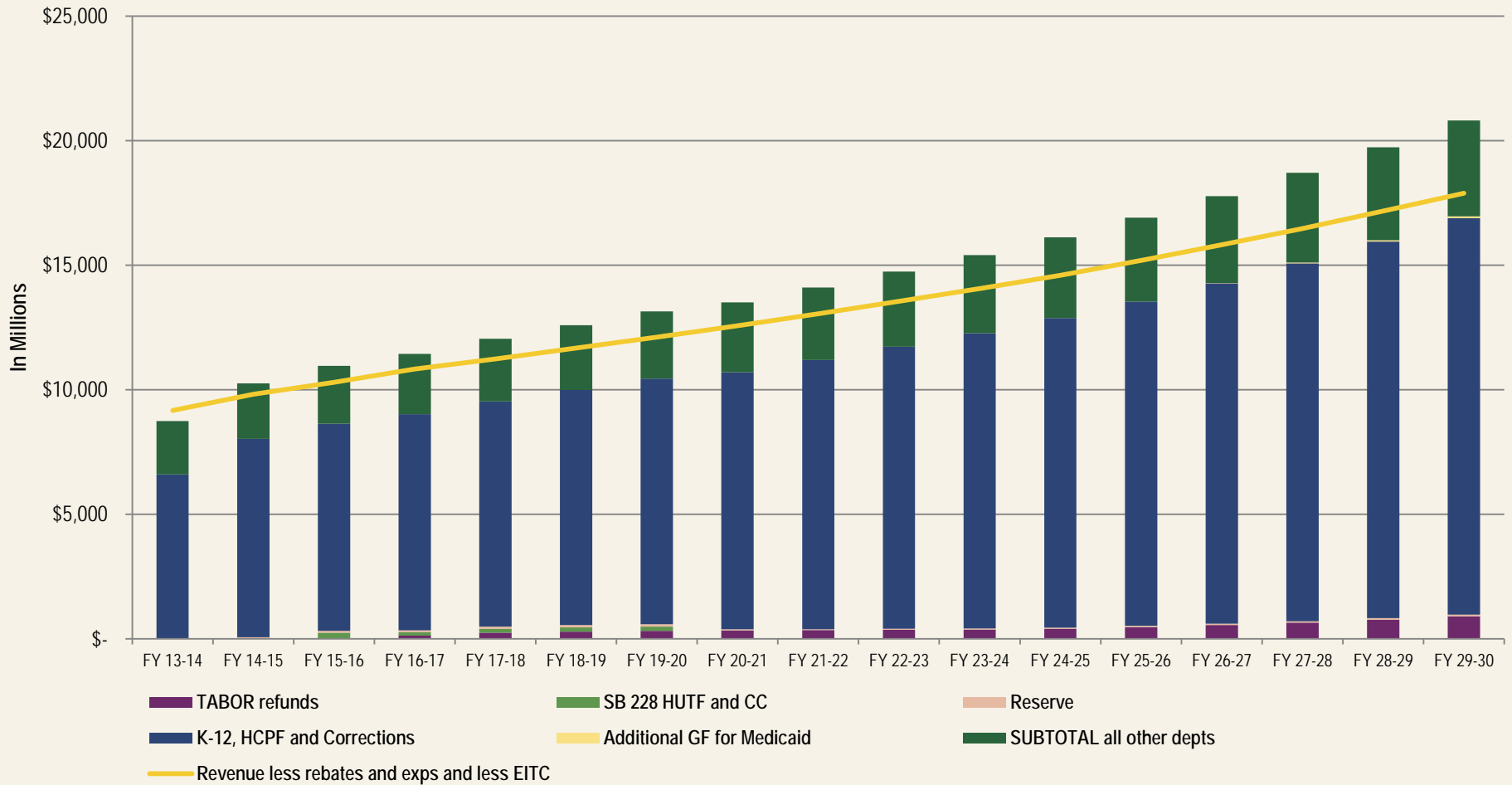


Colorado State University

# Our View of the World in 2011

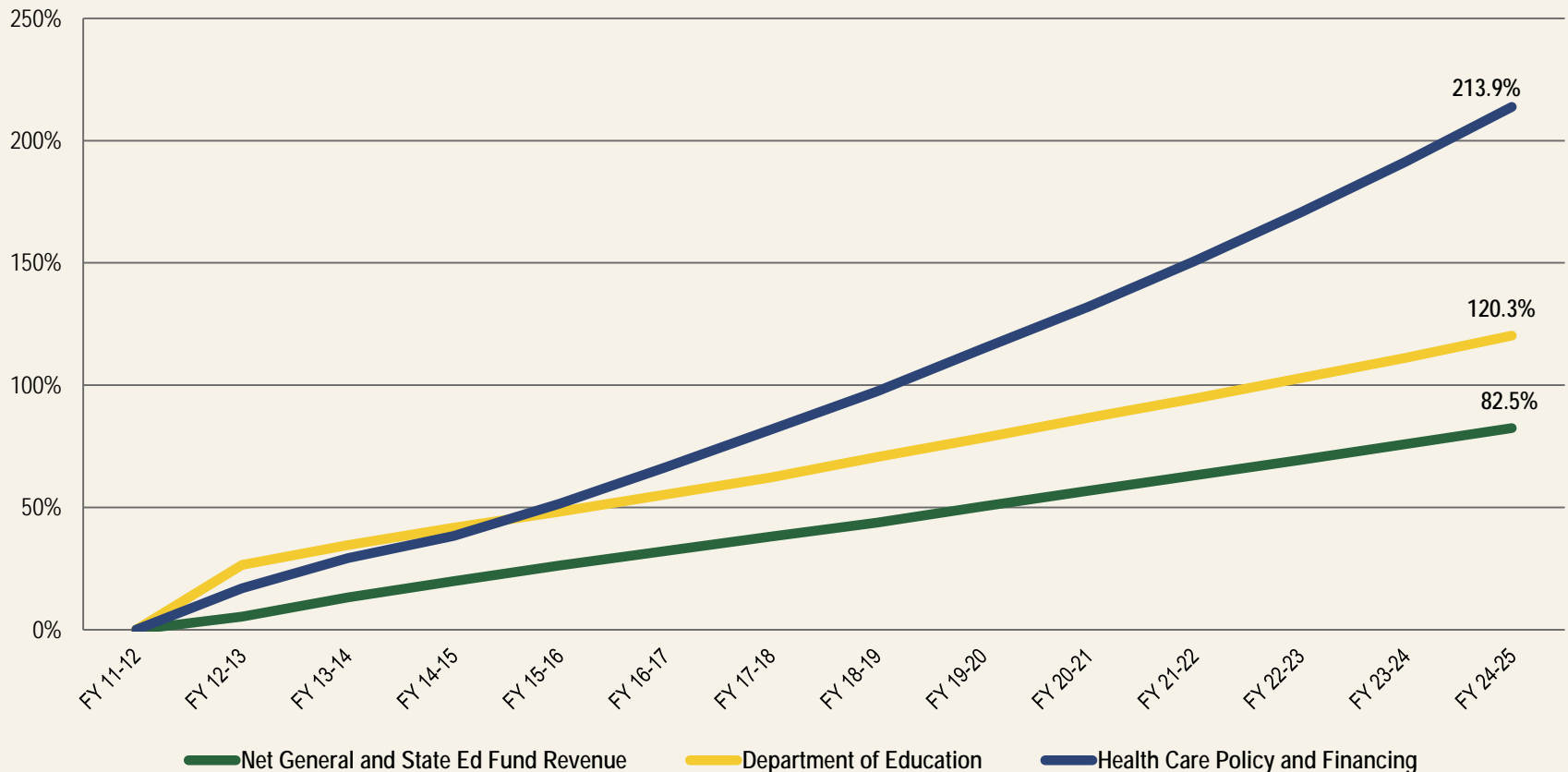


# The Current Model Reveals a Better Picture



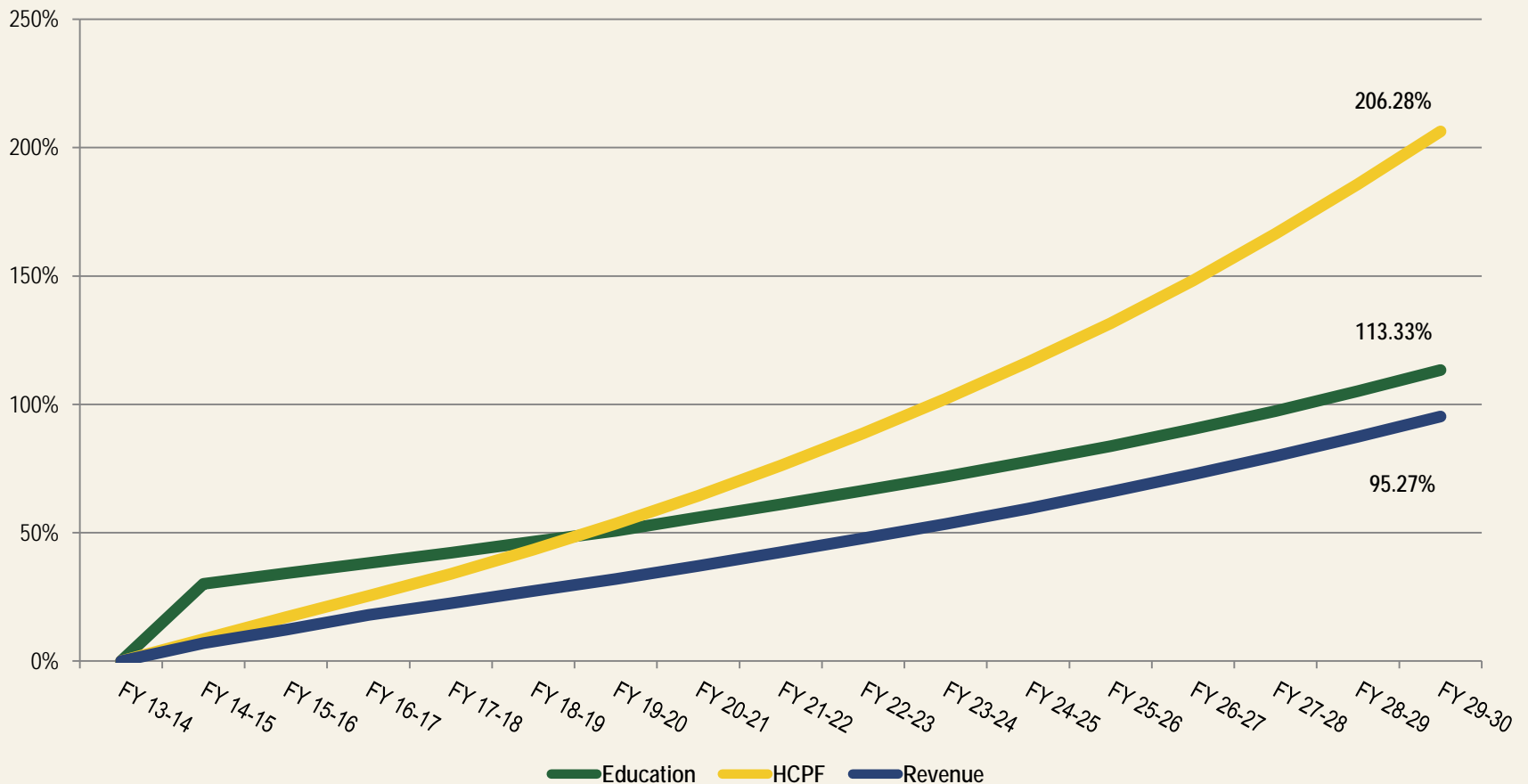
# 2011 Model: Source of the Structural Imbalance

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



# And 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





# So How Did We Come to 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



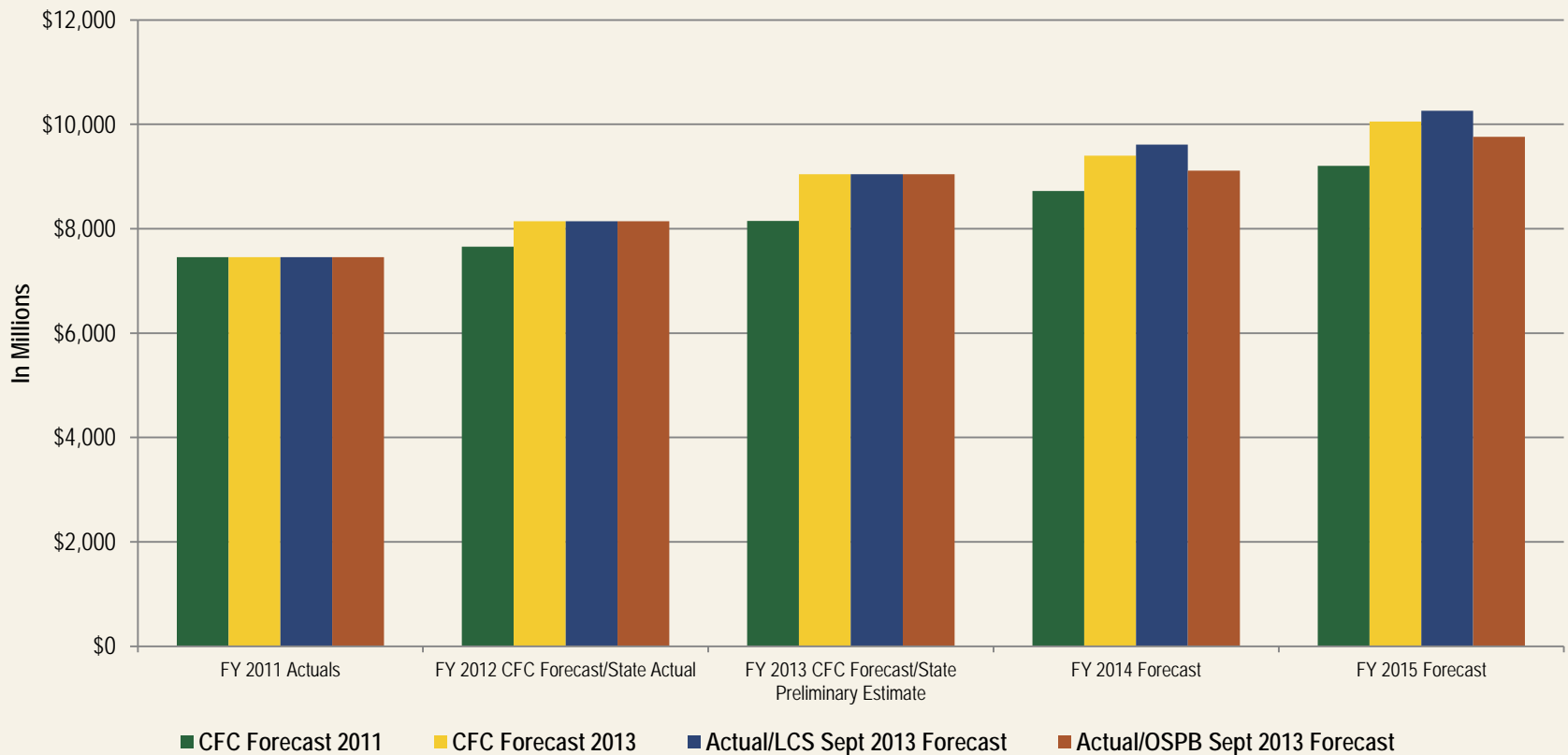
Robust  
Recovery in  
State Revenue,  
Particularly  
Individual  
Income Tax



Gap Smaller  
than  
Previously  
Forecast

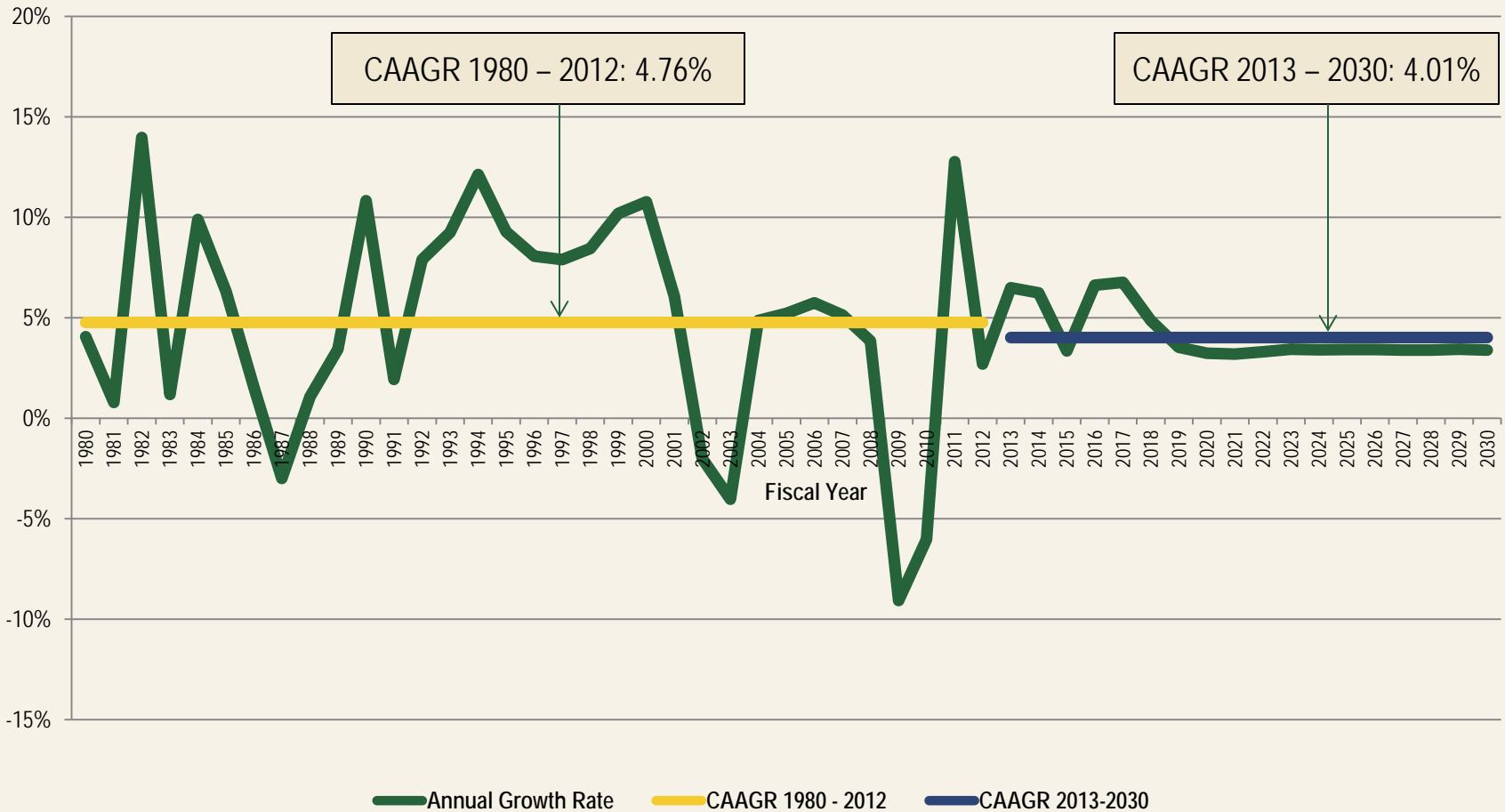
# Revenue Recovery More Robust

General Fund Revenue Forecast Comparison:  
CFC 2011 and 2013 Forecasts to September 2013  
LCS and OSPB Forecast



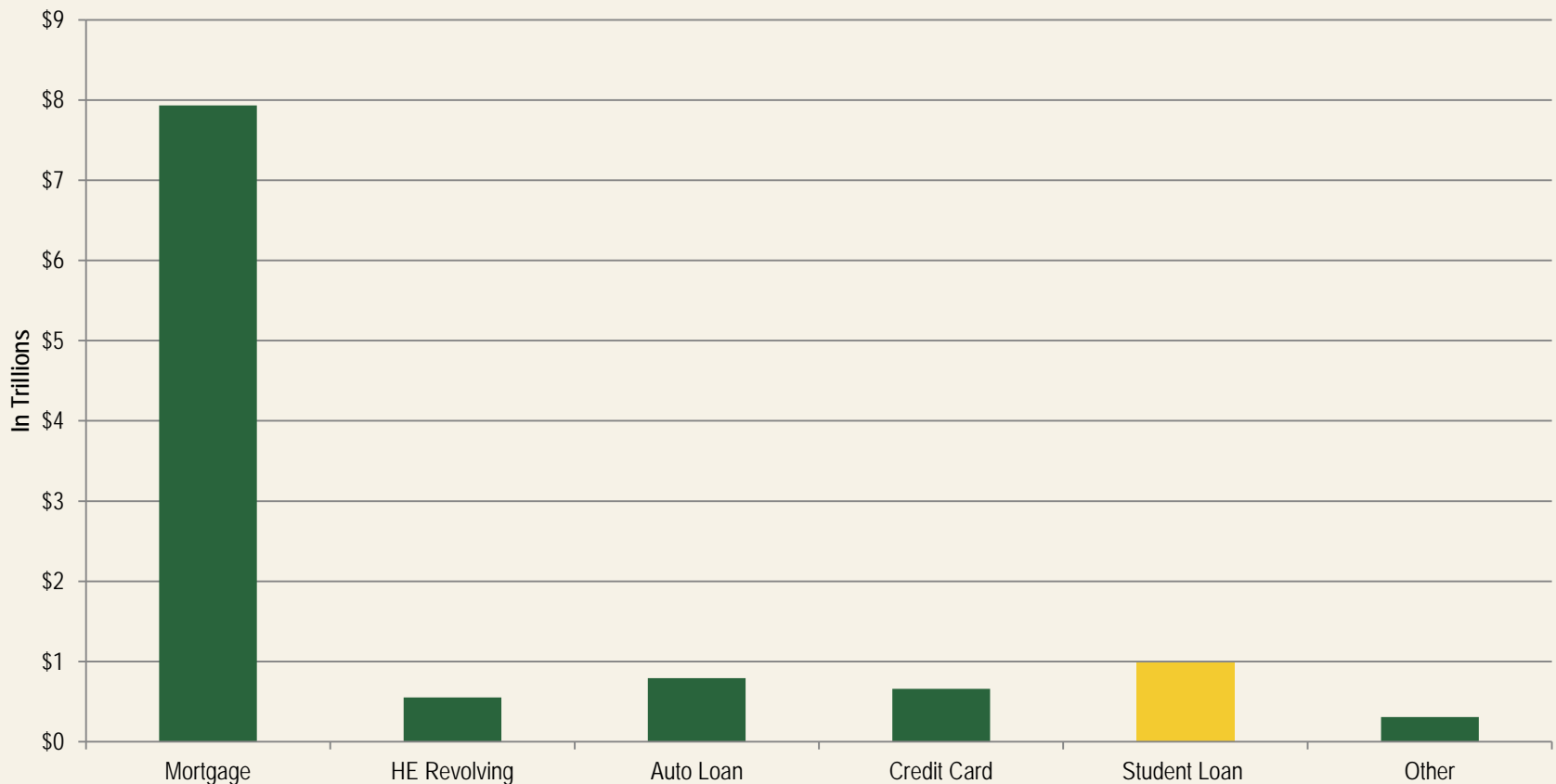


# However, Sales Tax Will Continue to Degrad



# Echo of the Recession: Student Loan Debt Looms Large

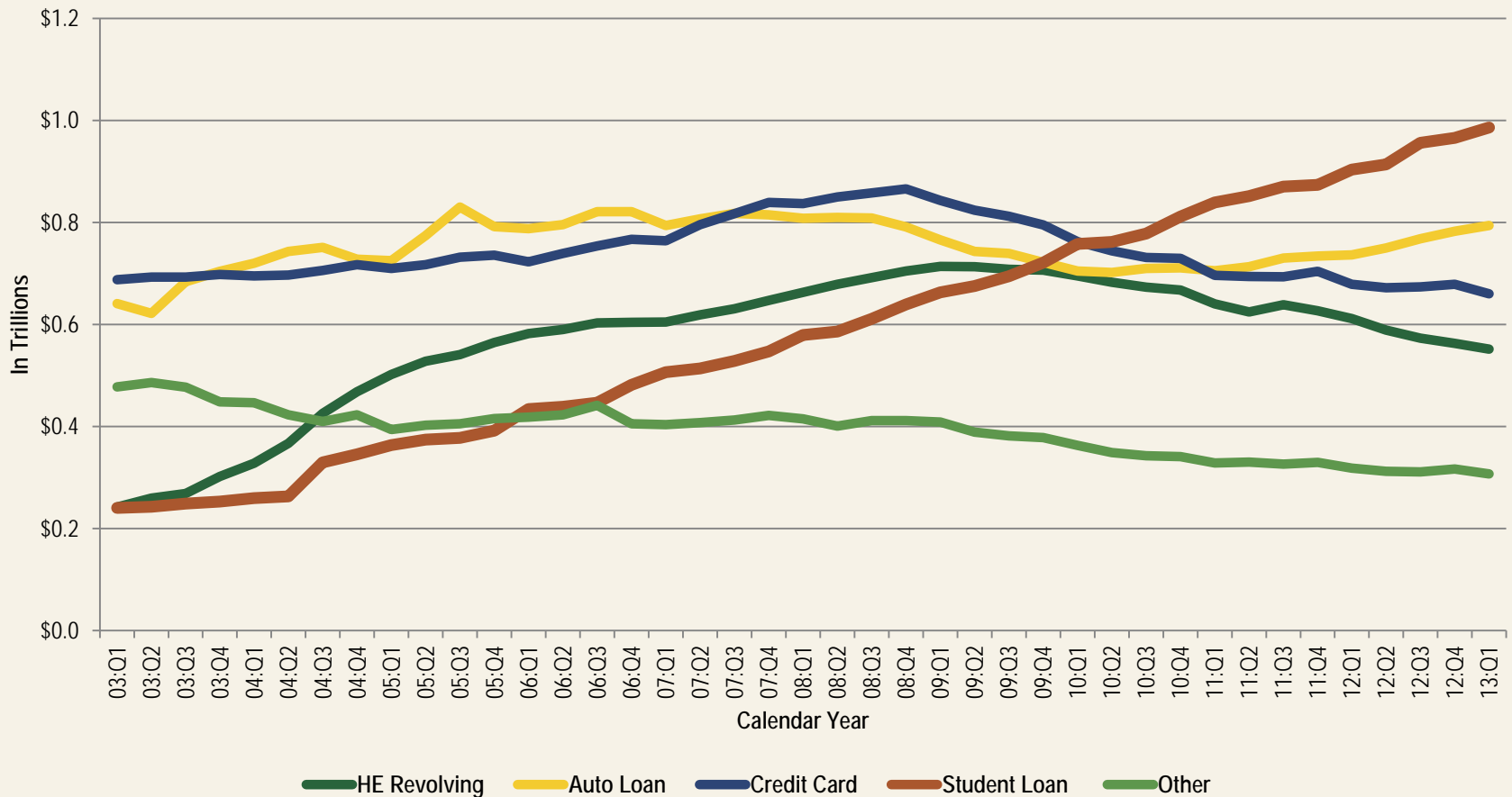
## Nationally Student Loan Debt Approaching \$1 Trillion



Source: Federal Reserve Bank of NY

# Especially in This Time of Deleveraging

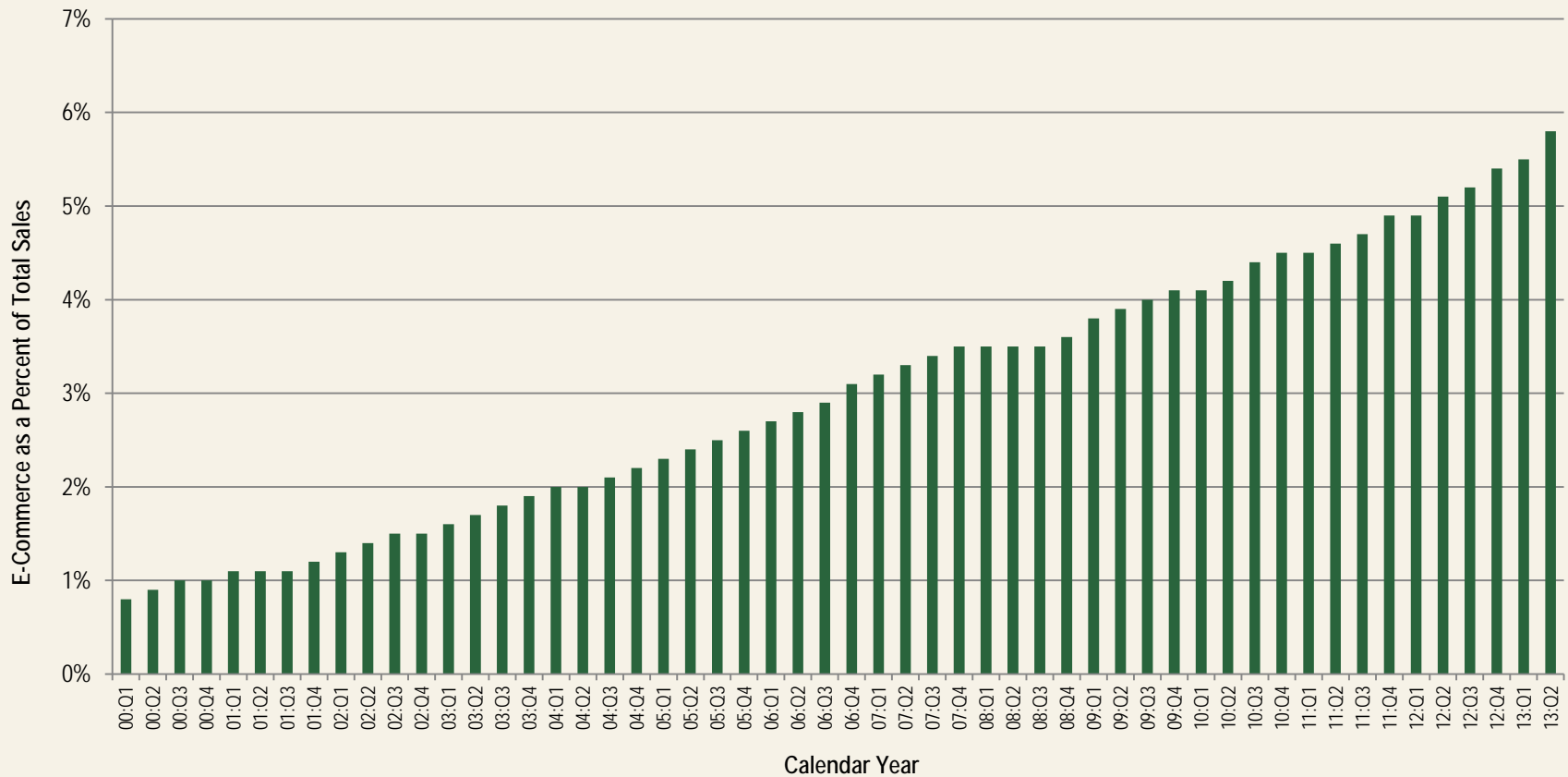
## Sources of Household Debt Other than Mortgage Debt



Source: Federal Reserve Bank of New York

# Sales Continue Their Steady Shift to E-Commerce

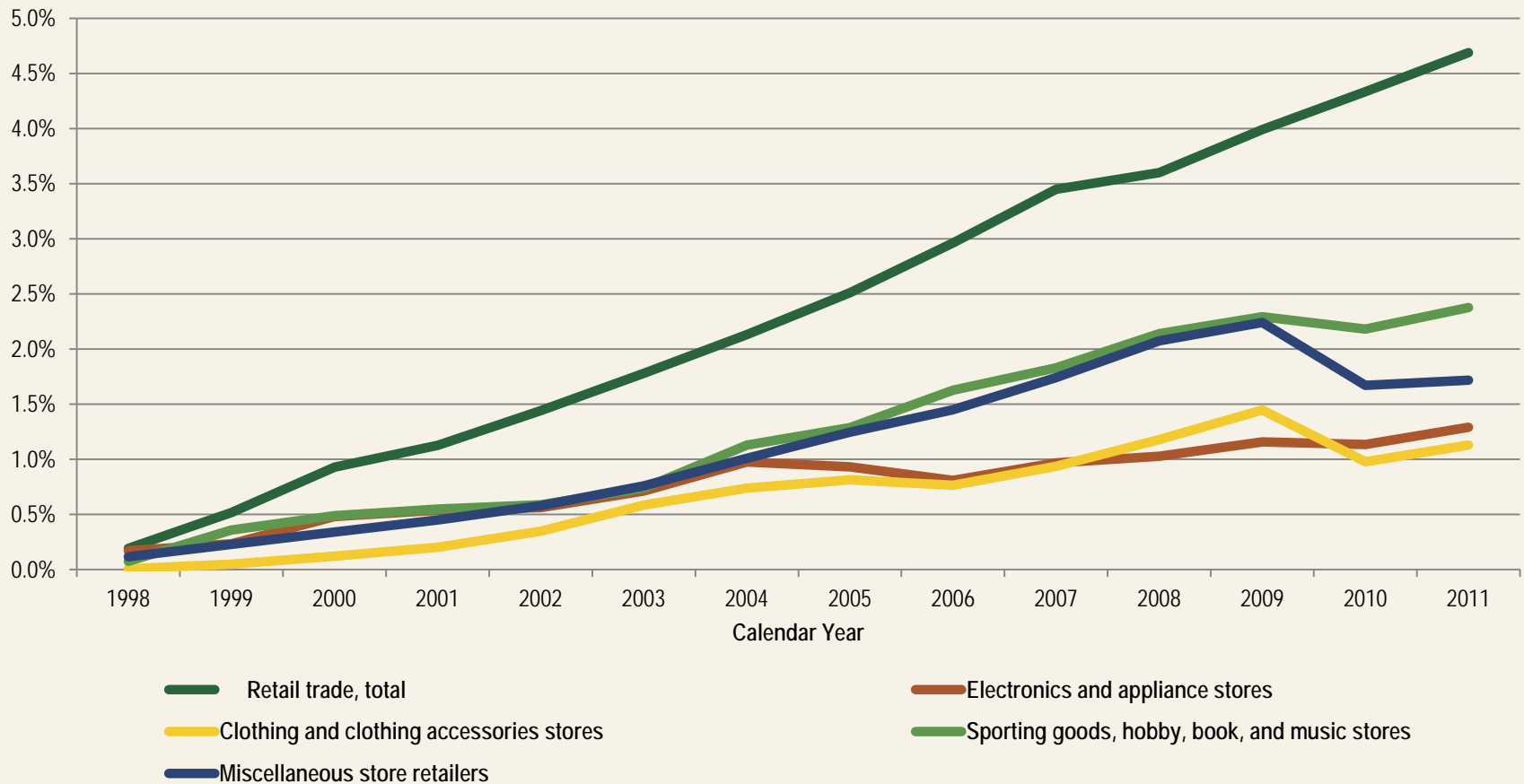
## E-Commerce as a Share of Total U.S. Sales



Source: Census Bureau

# And Shift Occurring in All Sectors

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

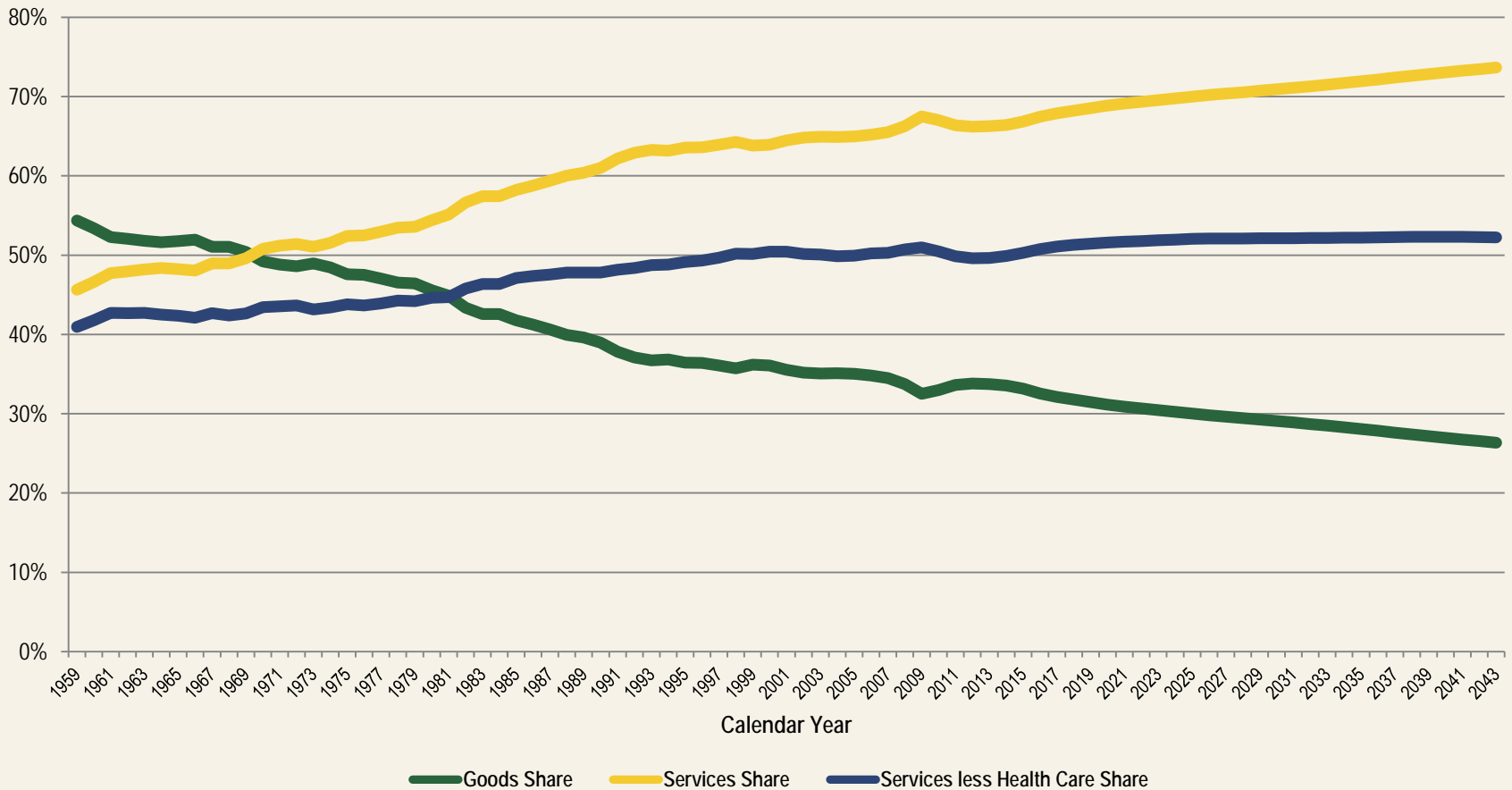


Source: Census Bureau



# Consumption Will Continue to Shift to Services

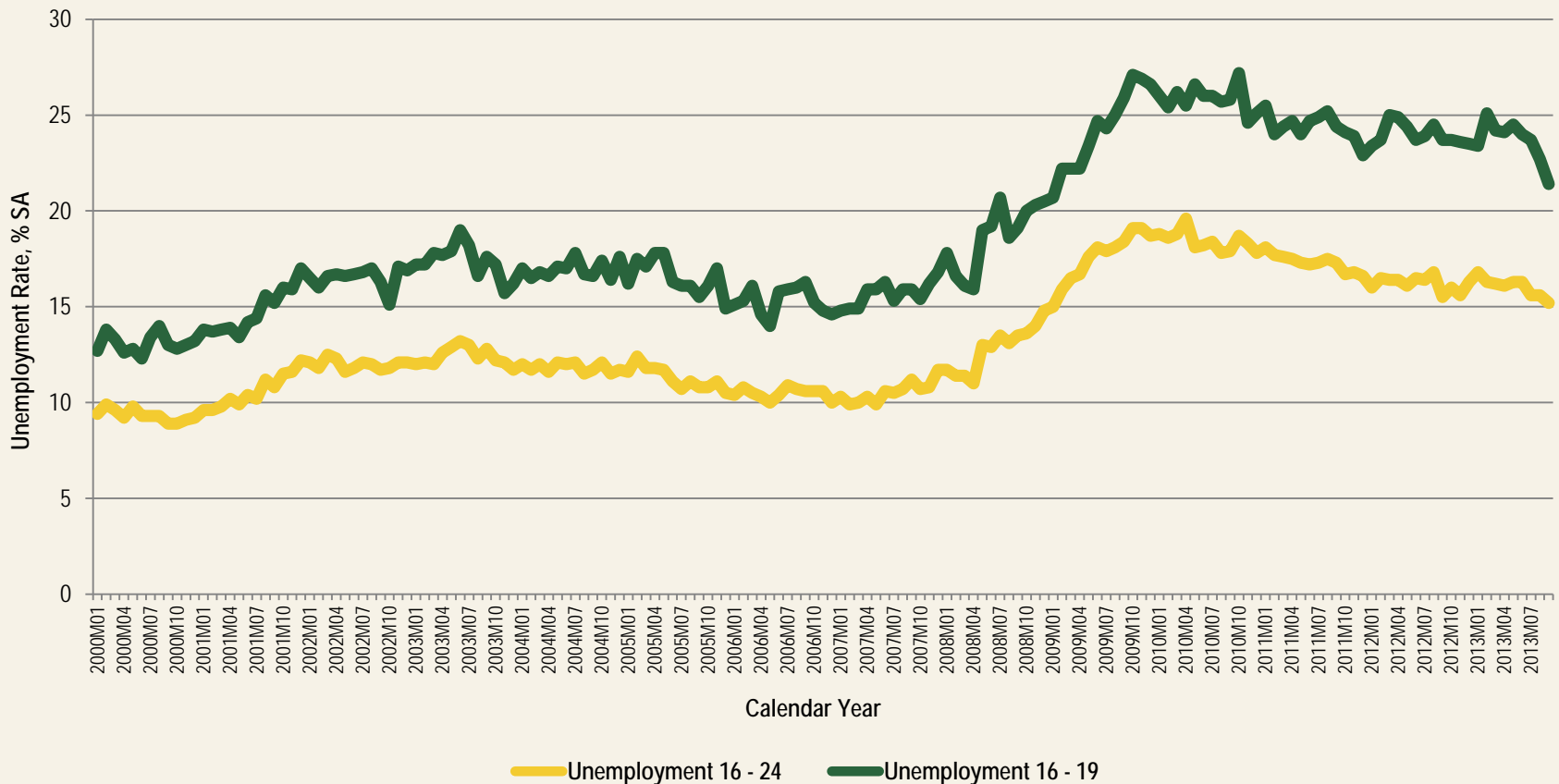
Share of Personal Consumption Expenditures Dedicated to Goods and Services



Source: BLS and Moody's Economy.com

# And Elevated Youth Unemployment Will Impact Future Earnings

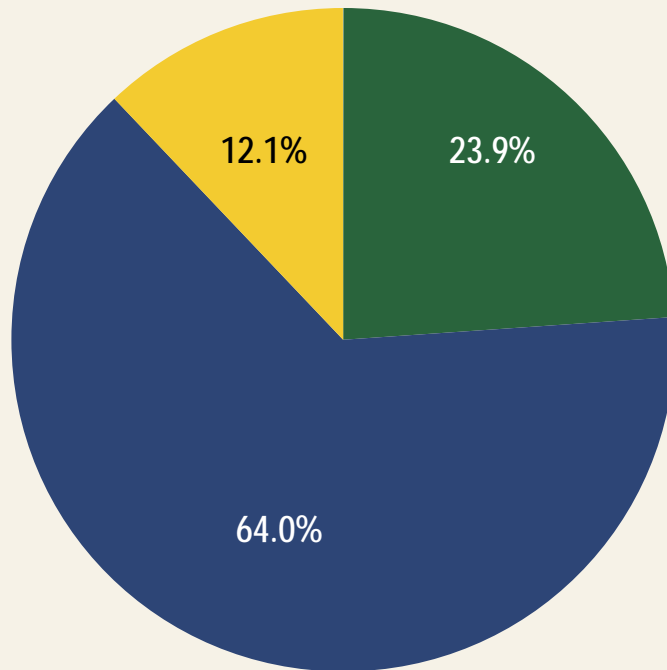
Youth Unemployment: U.S.



Source: BLS

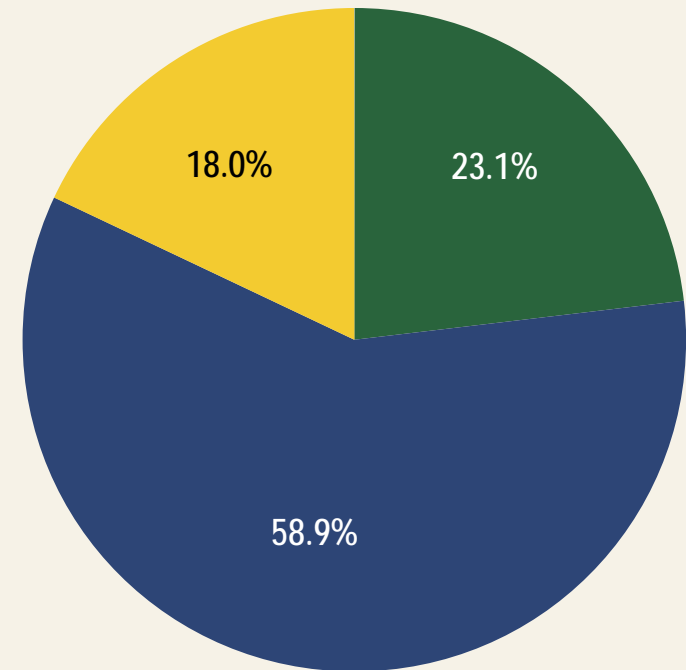
# And, Finally, Coloradans Are Still Aging, Which Affects All Revenues

2013 Share



■ Share 0-17 ■ Share 18-64 ■ Share over 65

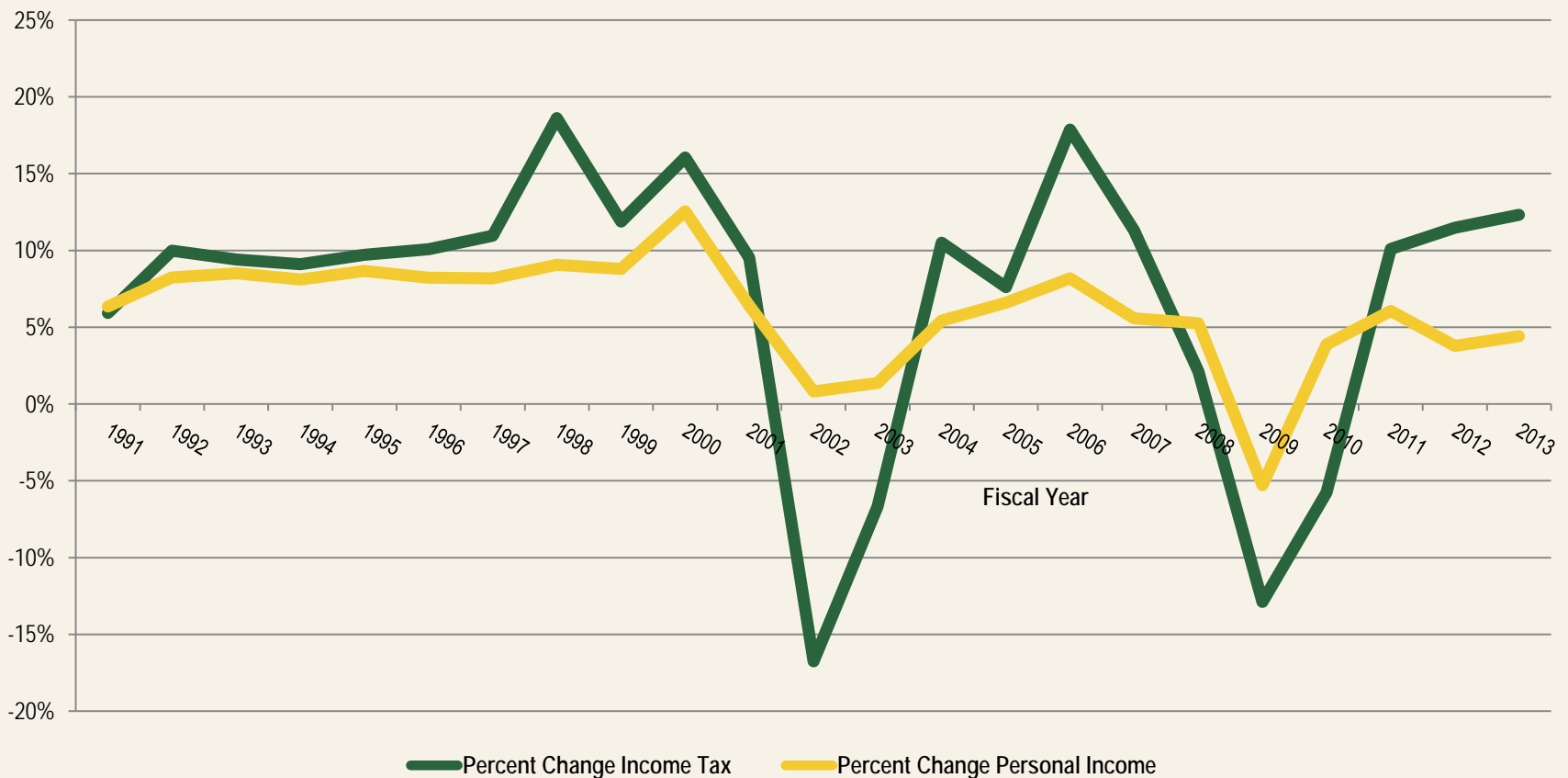
2030 Share



■ Share 0-17 ■ Share 18-64 ■ Share over 65

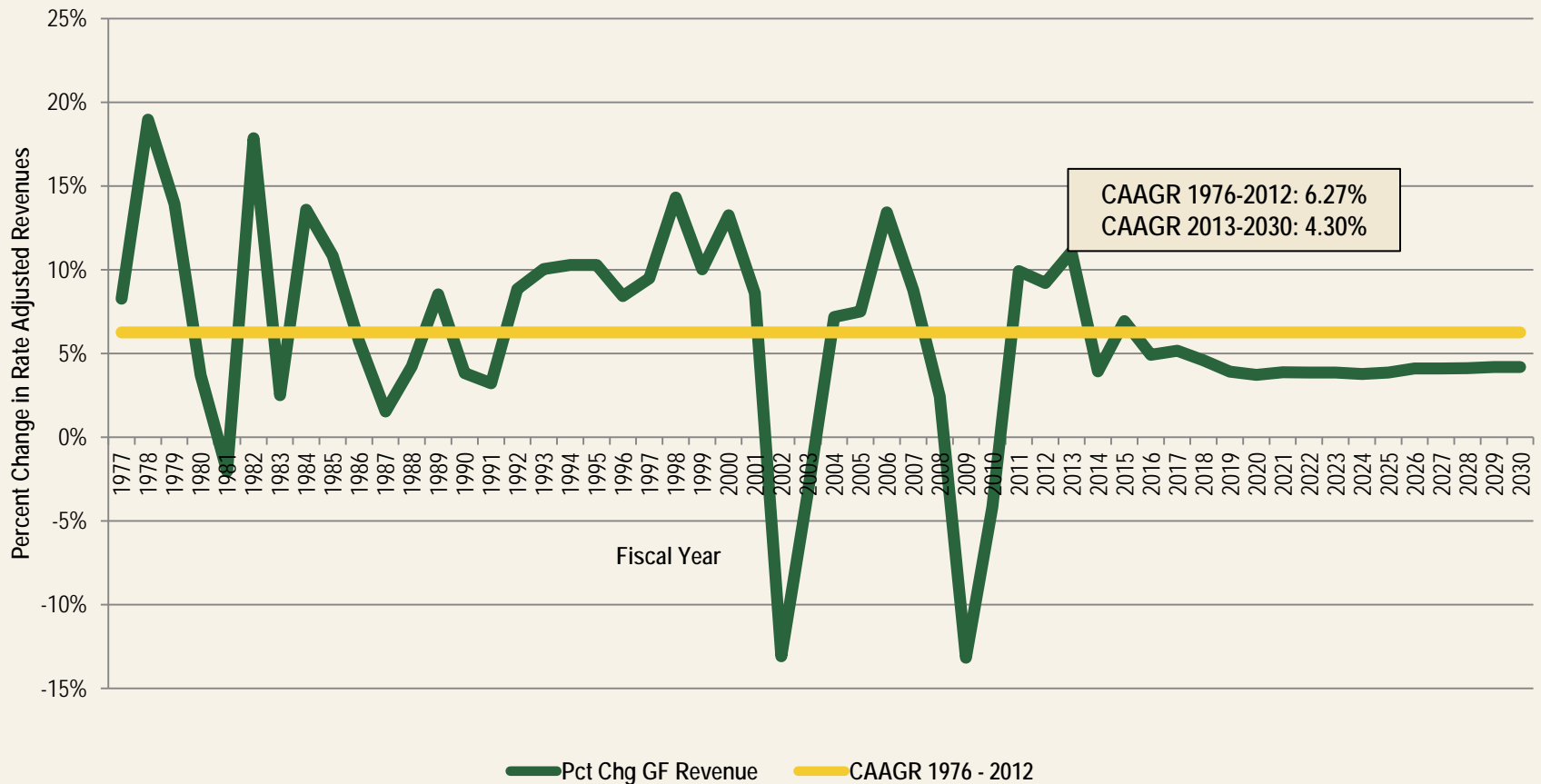
# Spread Between Individual Income Tax and Personal Income Growth Unlikely to Sustain

Growth in Colorado Individual Income Tax and Colorado Personal Income



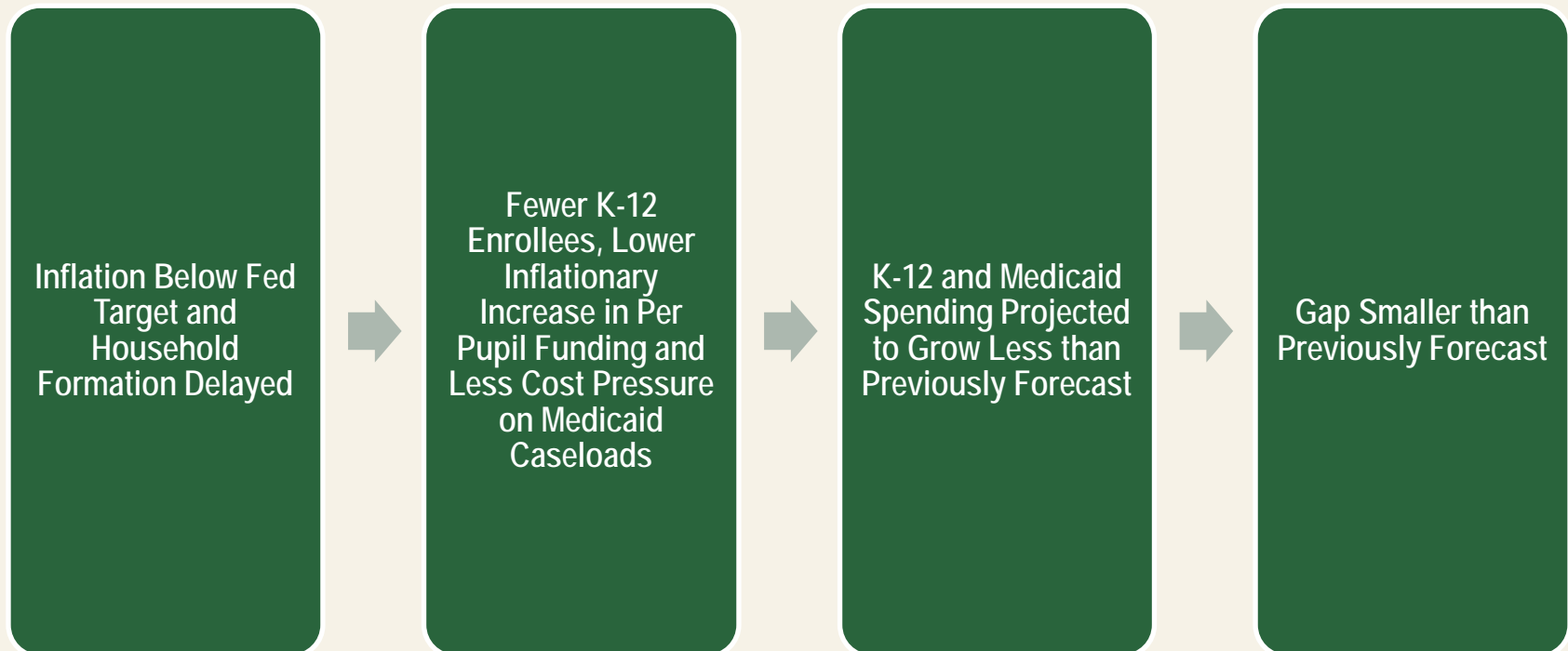
# And Overall General Fund Revenue Forecast Falls Short of Historic Growth Rates

## Percent Change in General Fund Revenue: History and Forecast



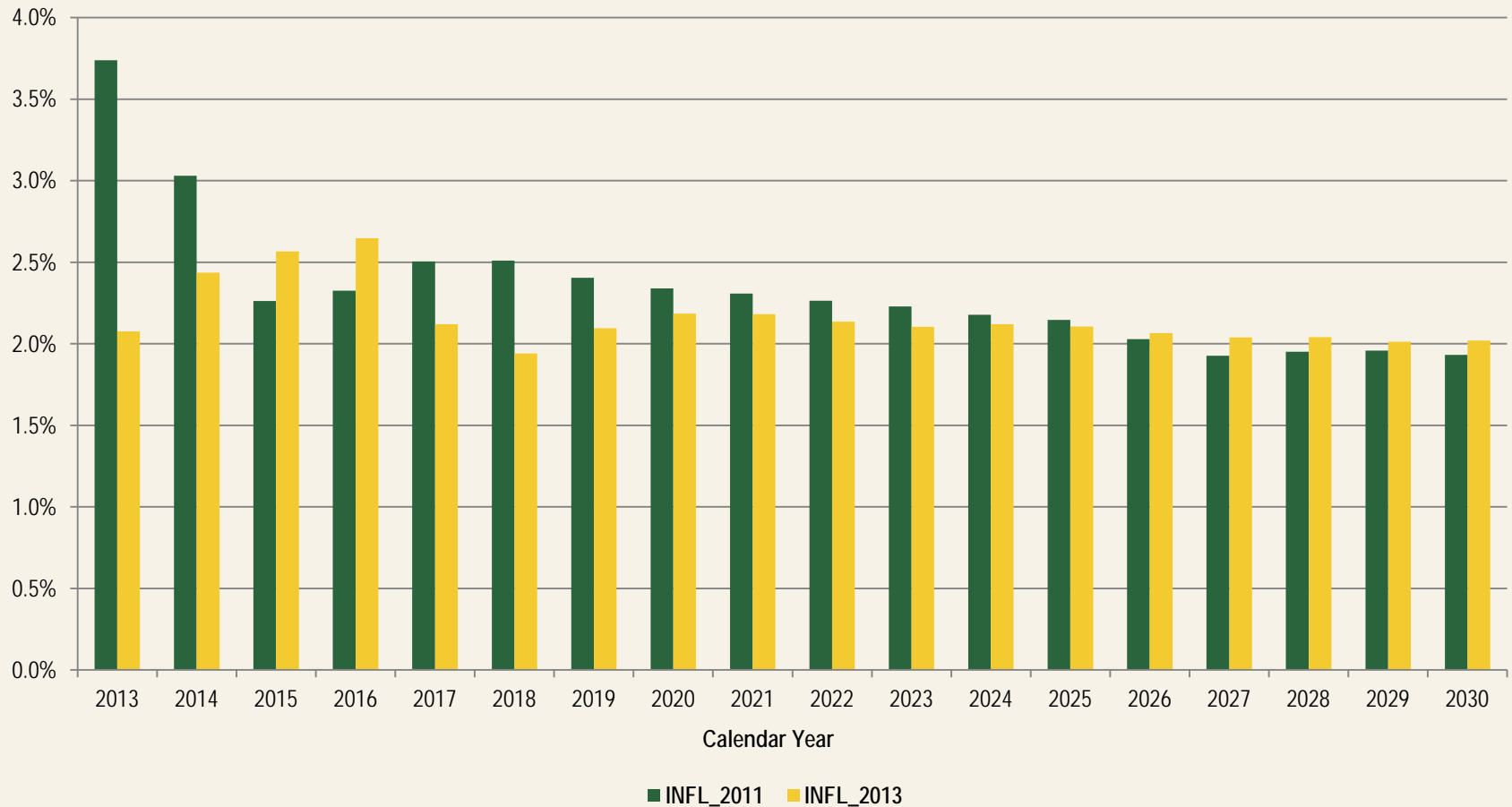


# Echo of the Recession: Lower Inflation and Population Growth Alleviate Pressure on Programs, Particularly K-12 and Medicaid



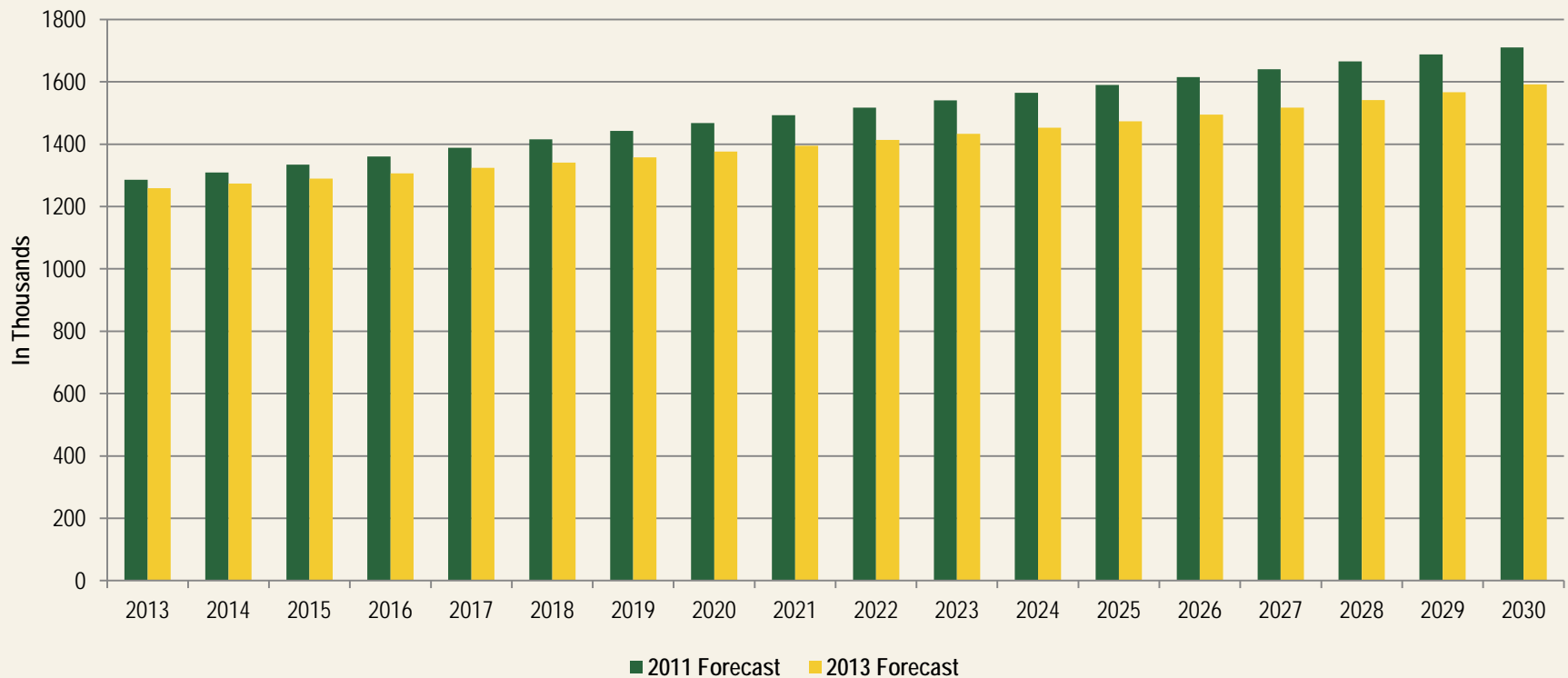
# In General, Inflation Pressures Waned

## 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

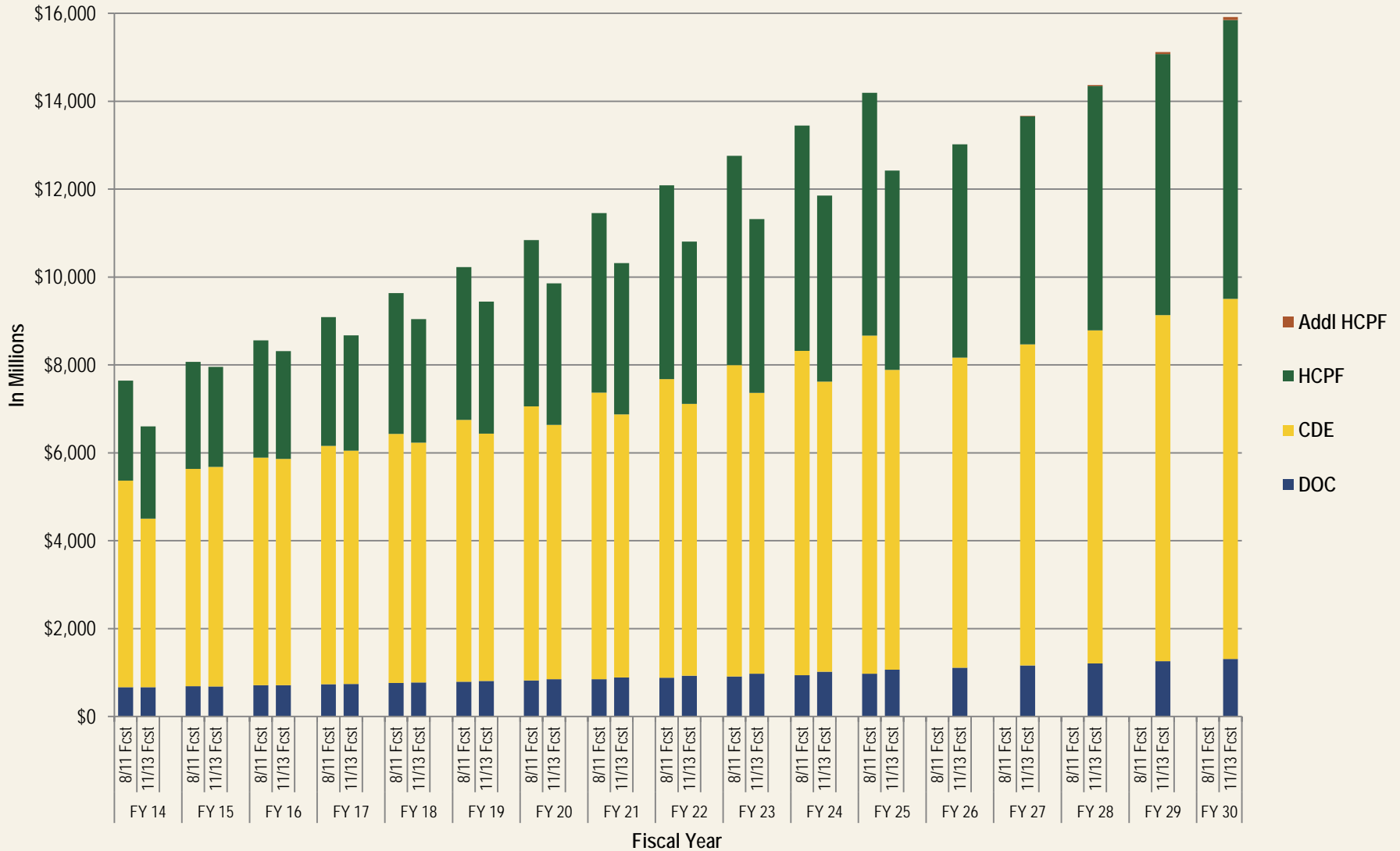


# Revenue and Spending Changes Since the Last Study

- 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

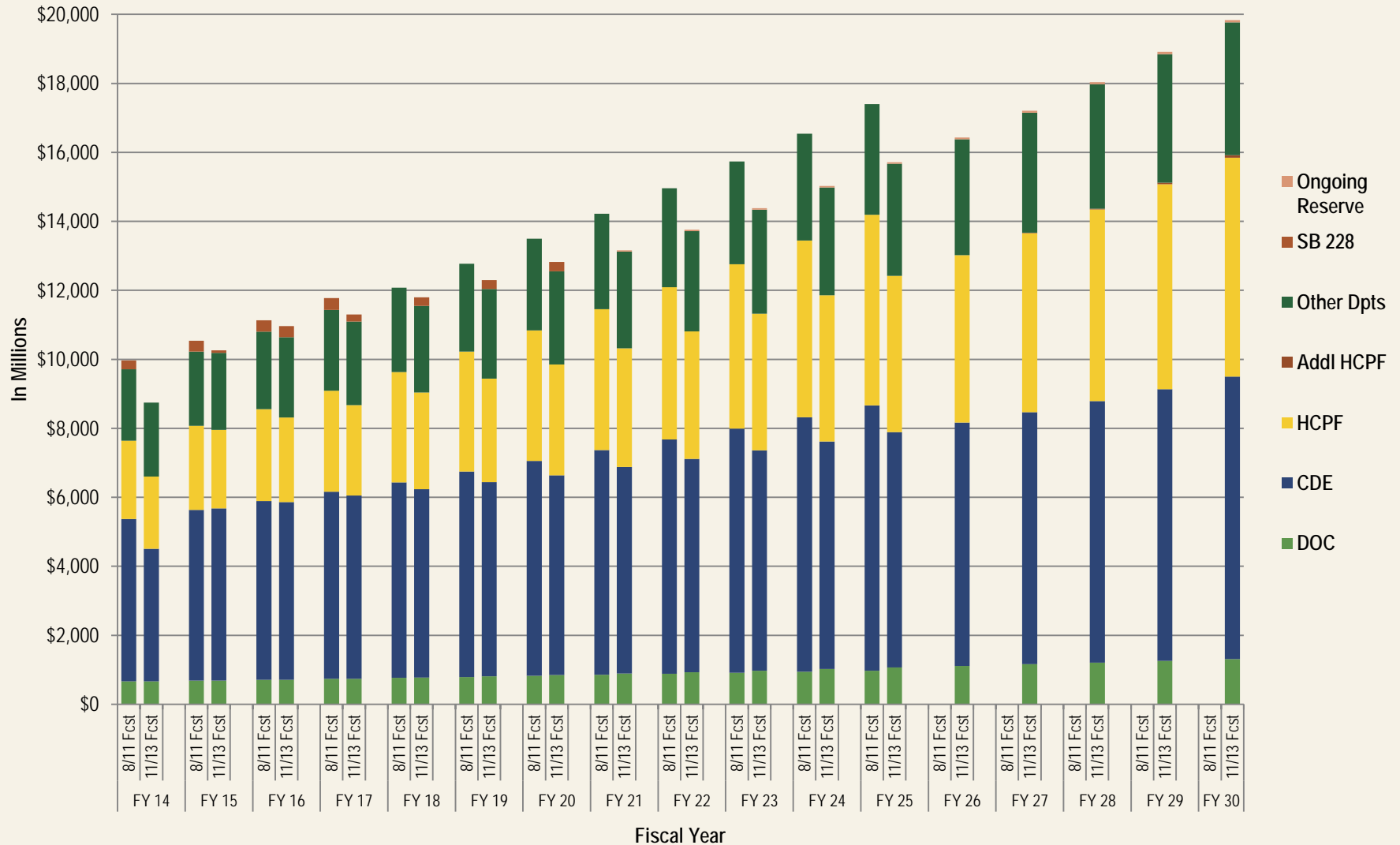


## Comparison of August 2011 and November 2013 General Fund Spending Forecasts for Three Largest Departments



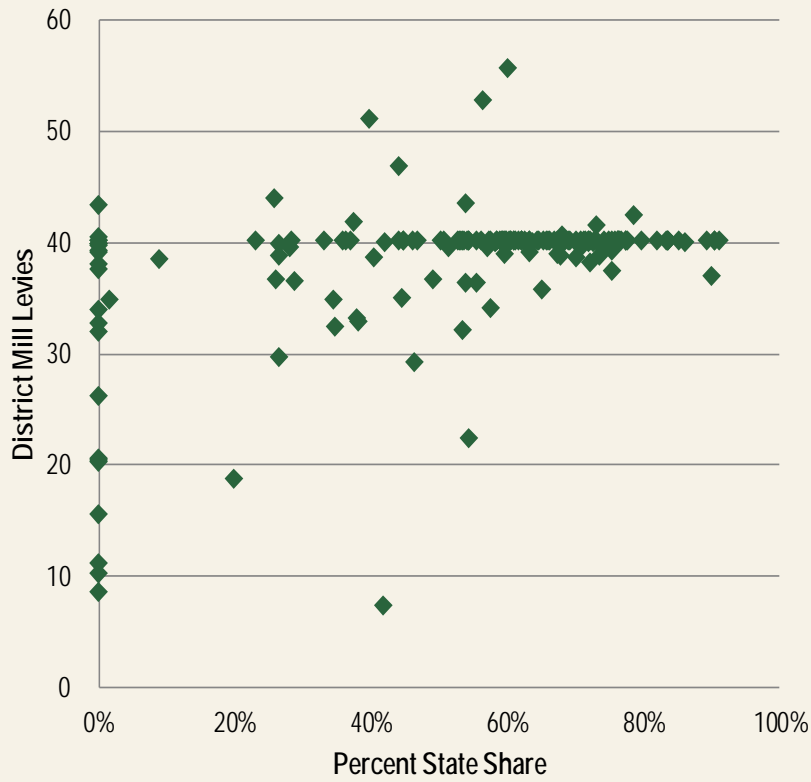


## Comparison of August 2011 and November 2013 General Fund Spending Forecasts by Departments



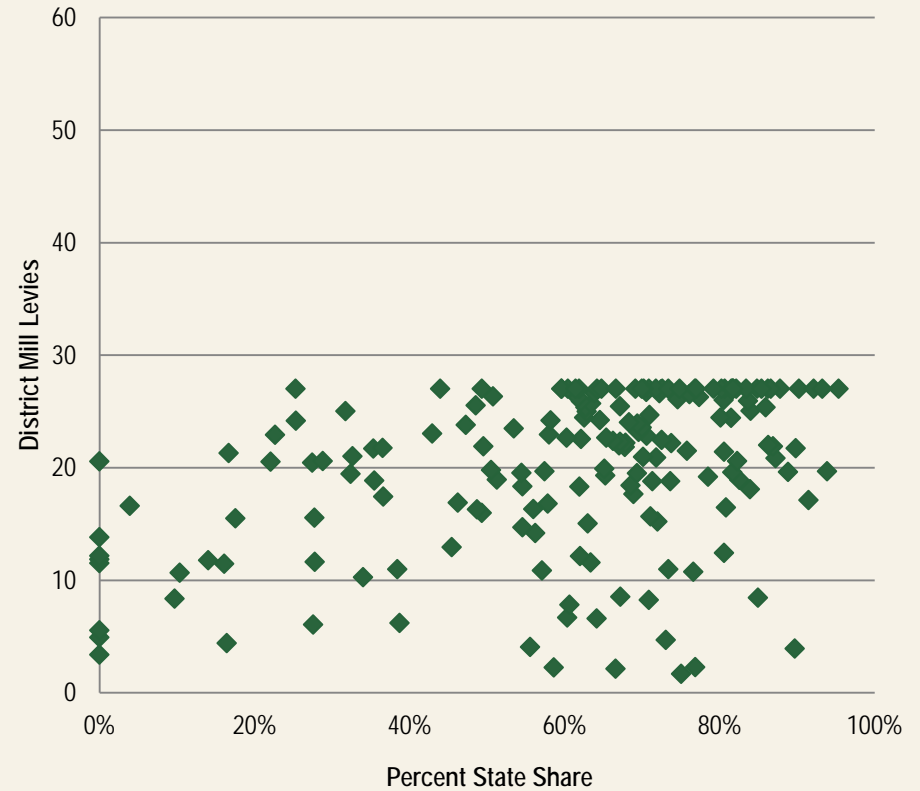
# System of Financing K-12 Education Remains Broken

1993-94



◆ 1993-94 Mills

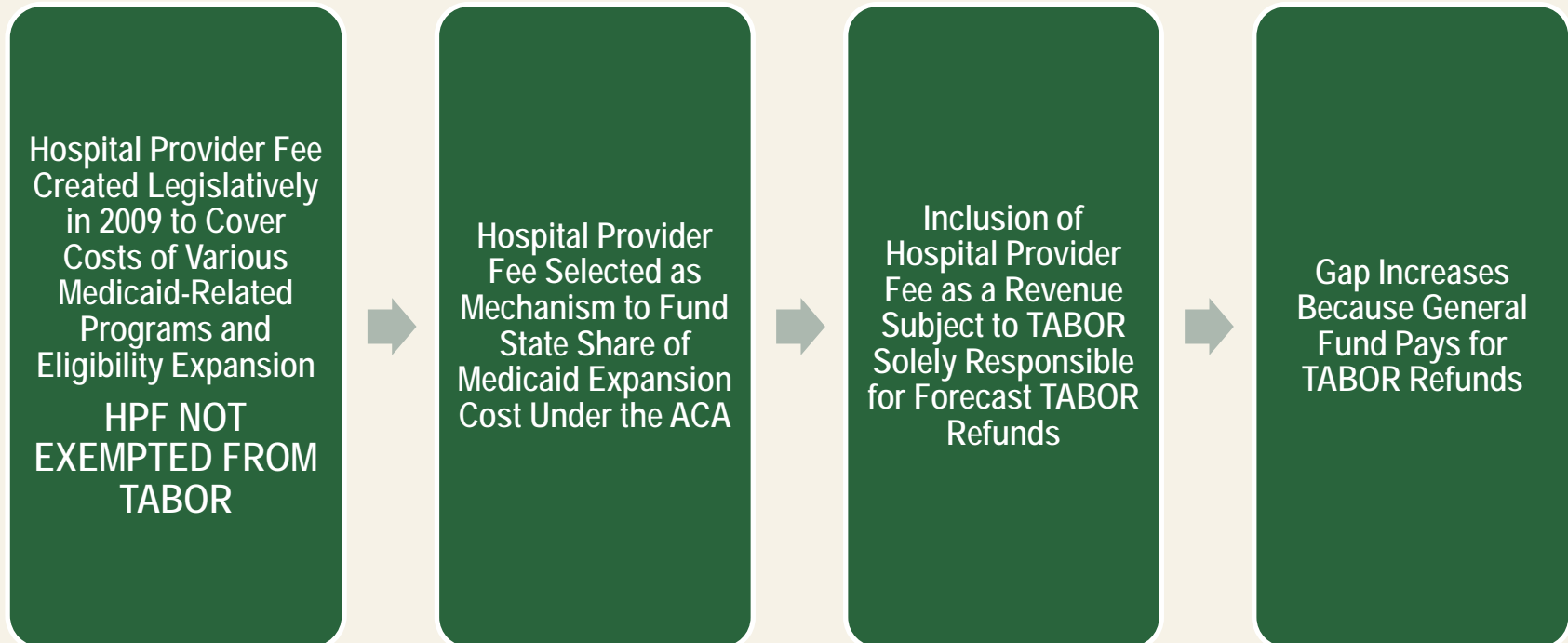
2012-13



Percent State Share

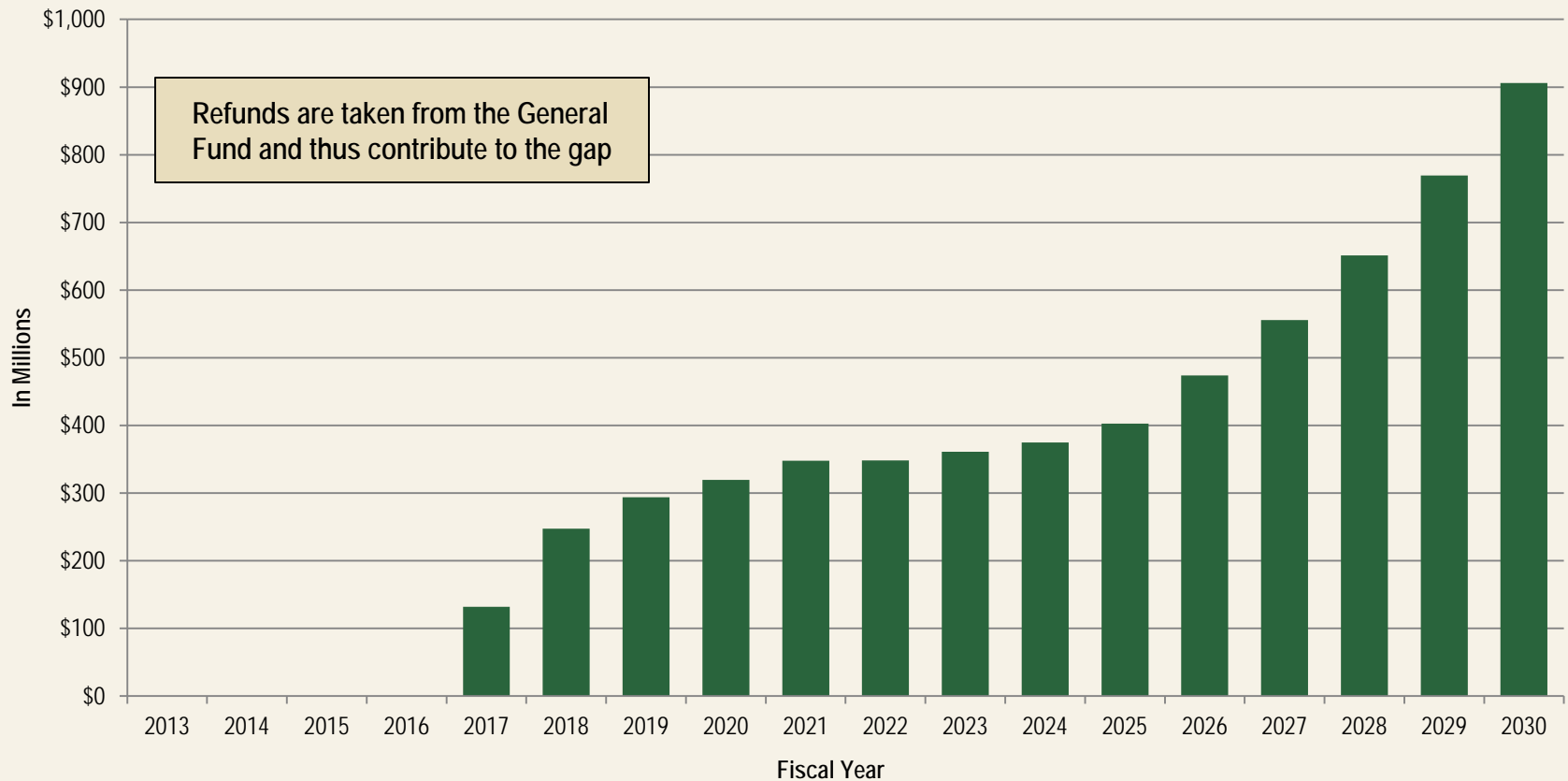
◆ 2012-13 Mills

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



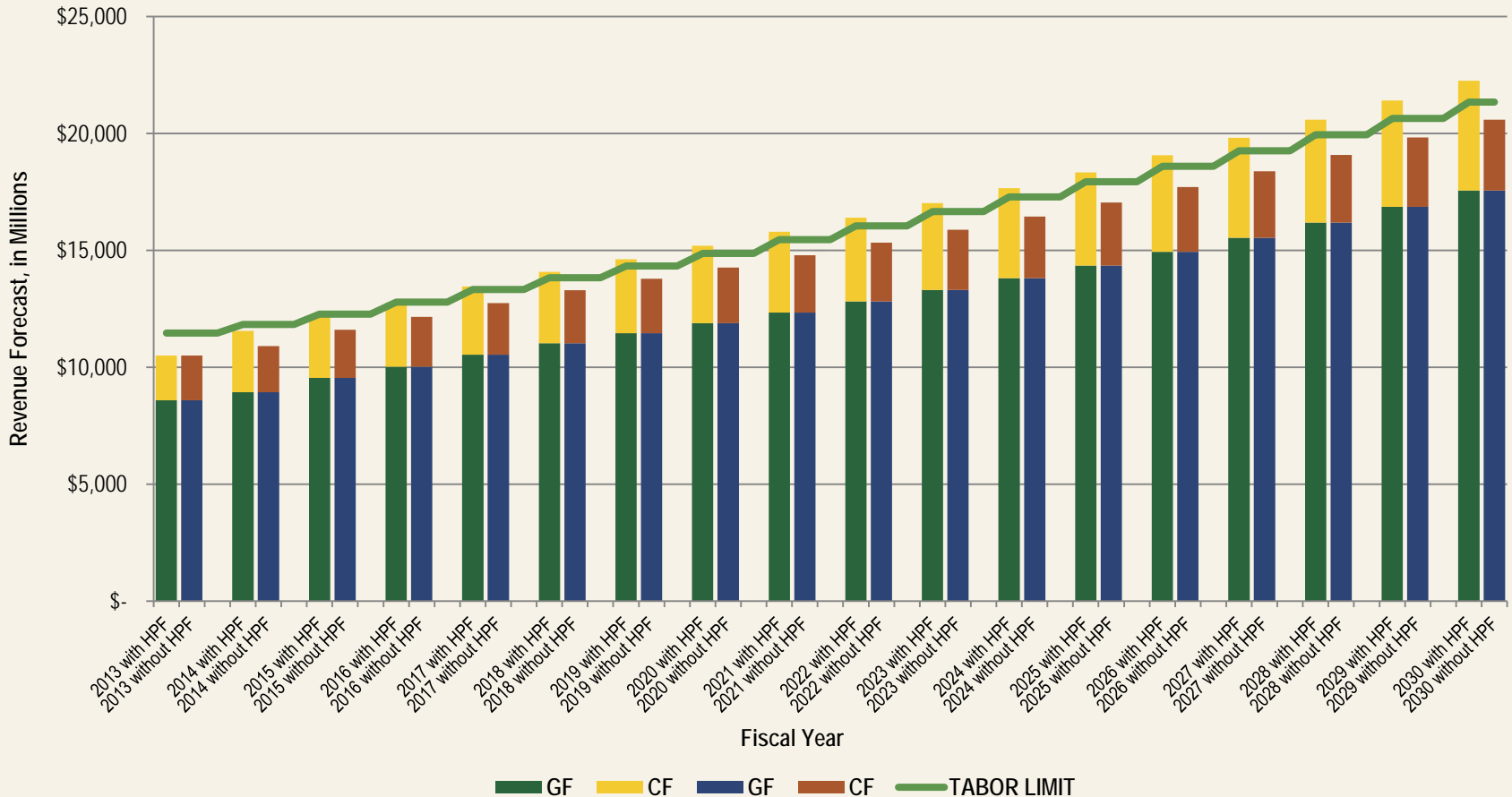
# Policy Contributing to the Gap: TABOR Refunds Return in 2017

TABOR Refund Forecast



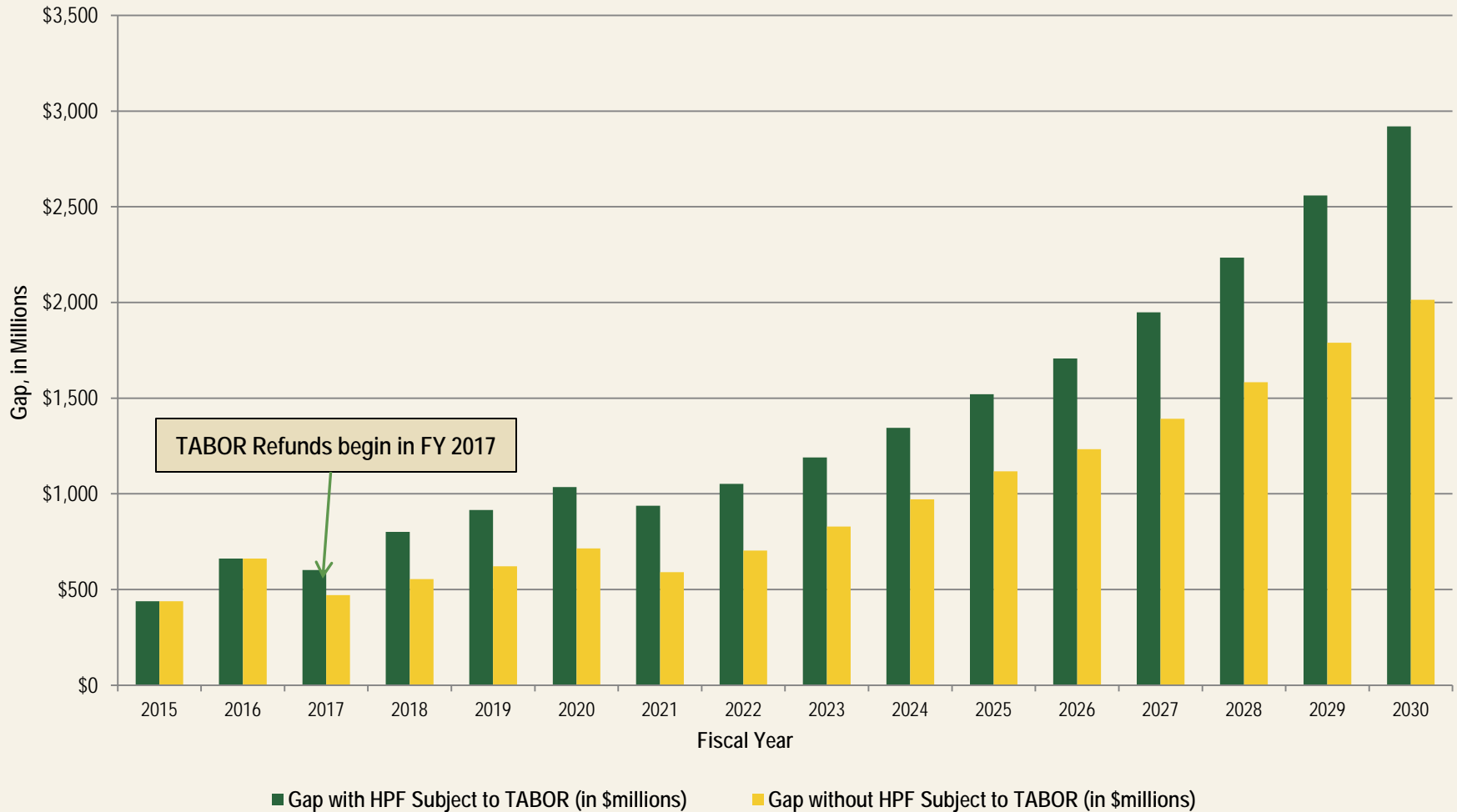
# Refunds Caused Solely by Hospital Provider Fee

## TABOR Refunds with and without Hospital Provider Fee



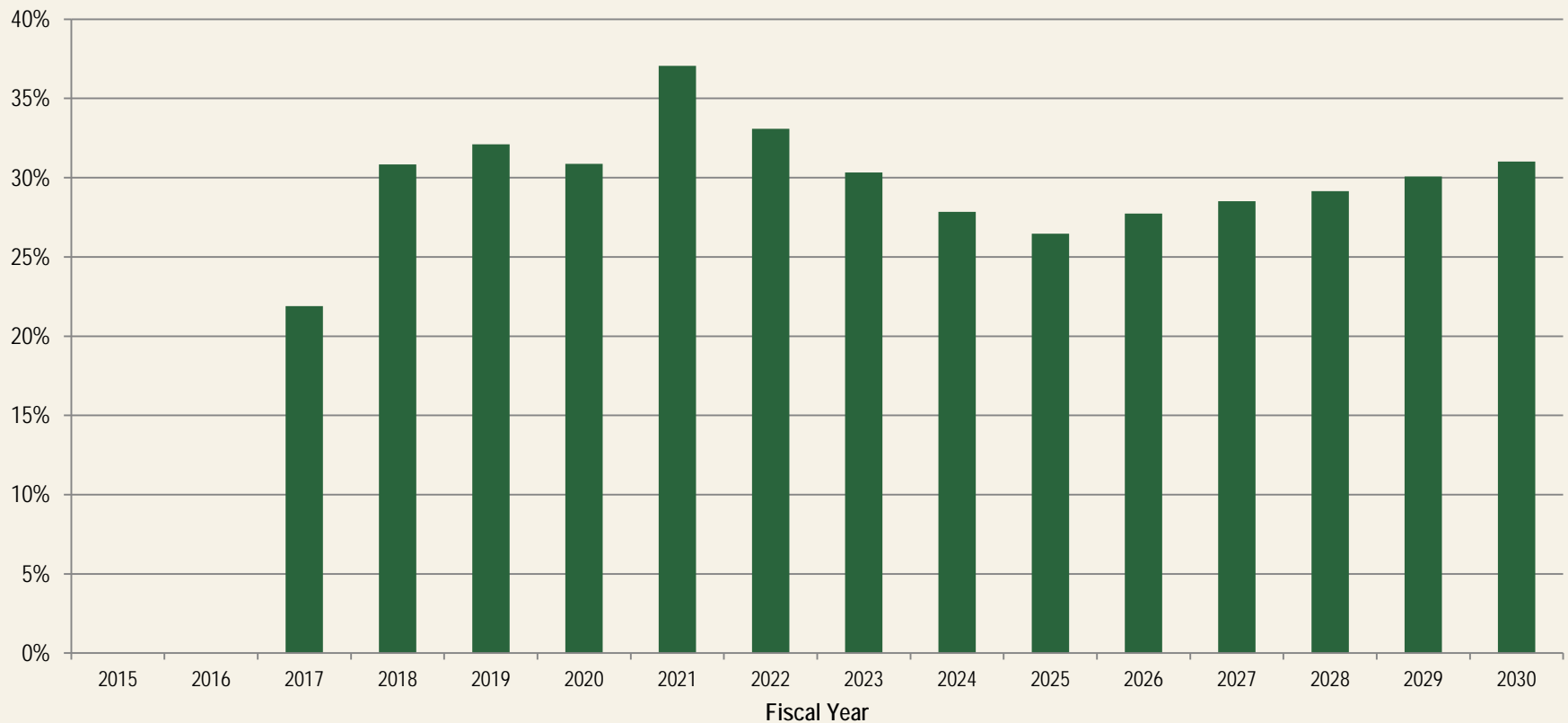
# And Contribute Significantly to Gap

## Gap Forecast, with and without TABOR Refunds



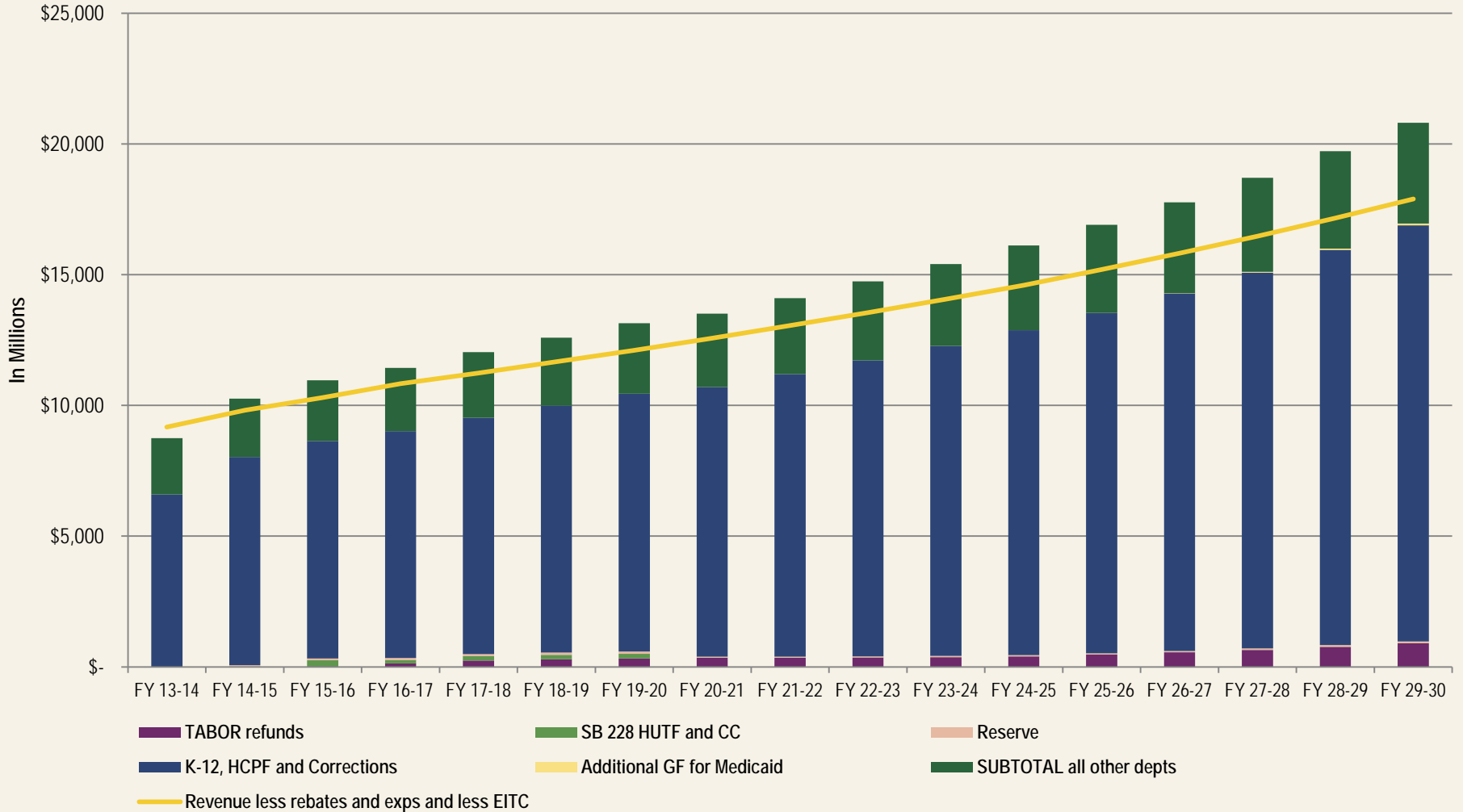
# By 2030, HPF-Driven TABOR Refunds Account for 31.02 Percent of Gap

Share of Gap for which HPF-Driven TABOR Refunds are Responsible

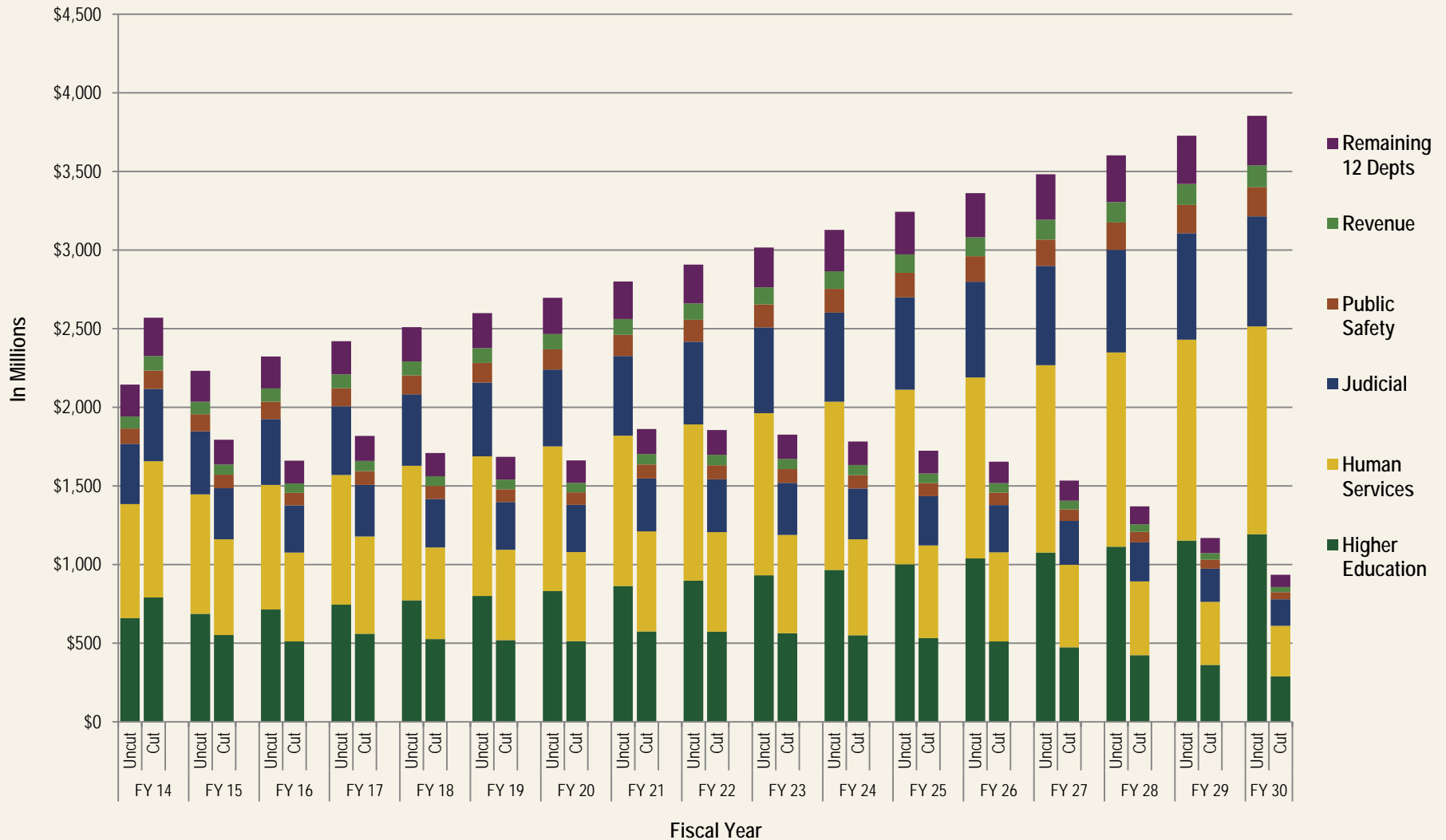




# Short- and Longer-Term Options for Addressing the Persisting Gap

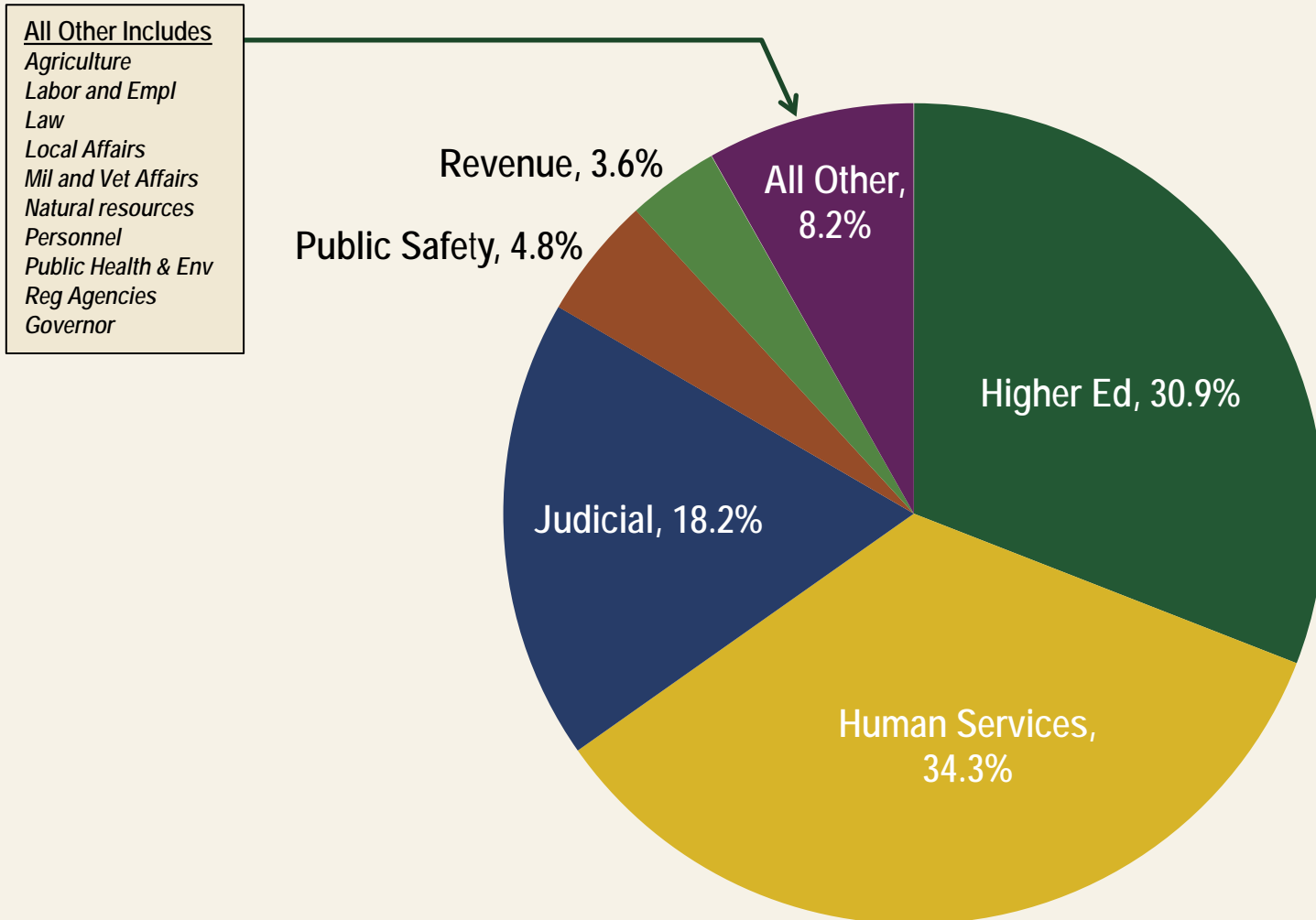


# Balancing Gap by Cutting Other Departments



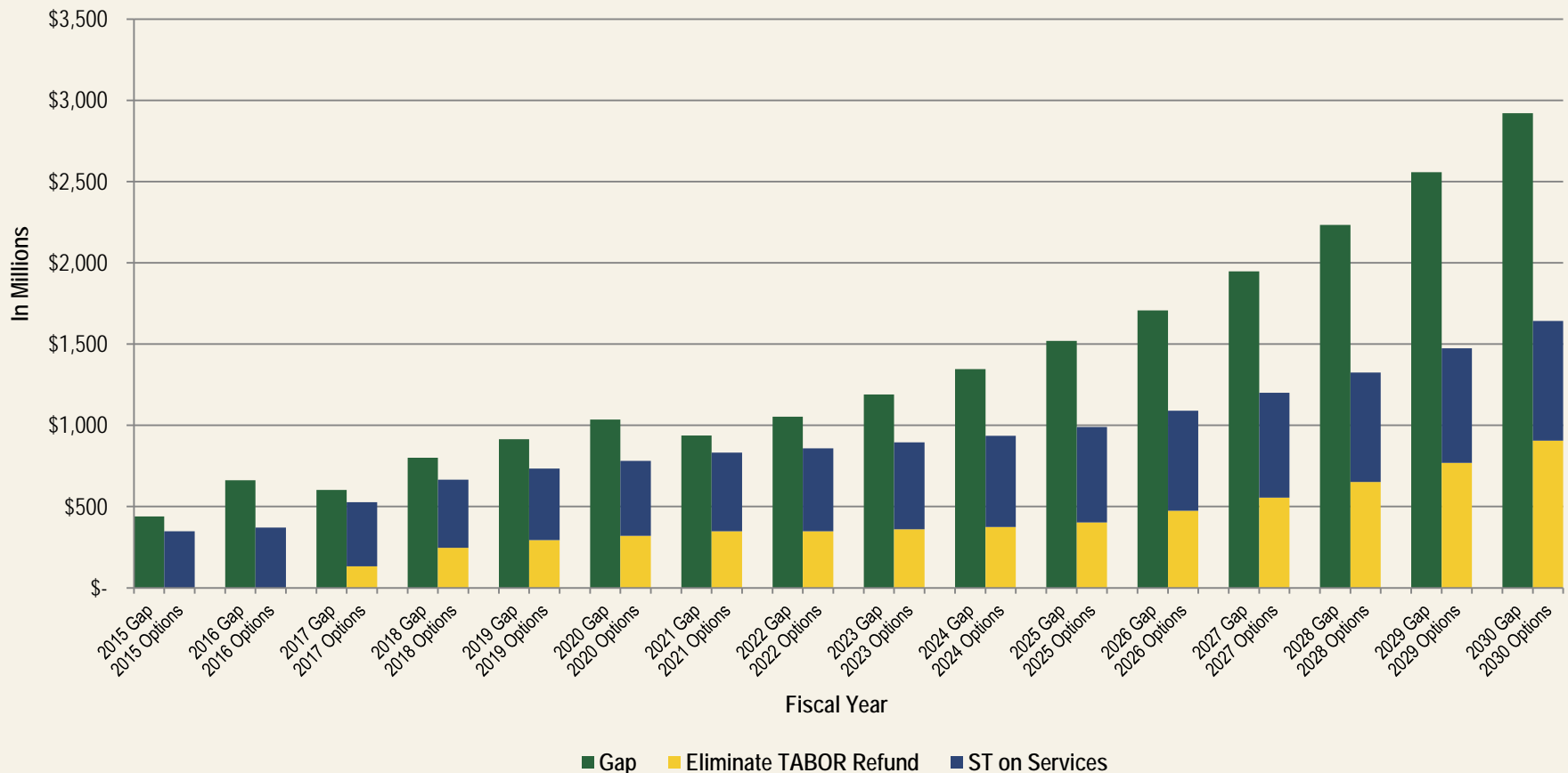
# Percentage Shares of Other Departments

(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

- Address local share of school funding
- Address the structure of the property tax system
- Improve the state's leveraging of federal matching funds



## 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







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Materials at  
<http://coloradofutures.colostate.edu>*



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