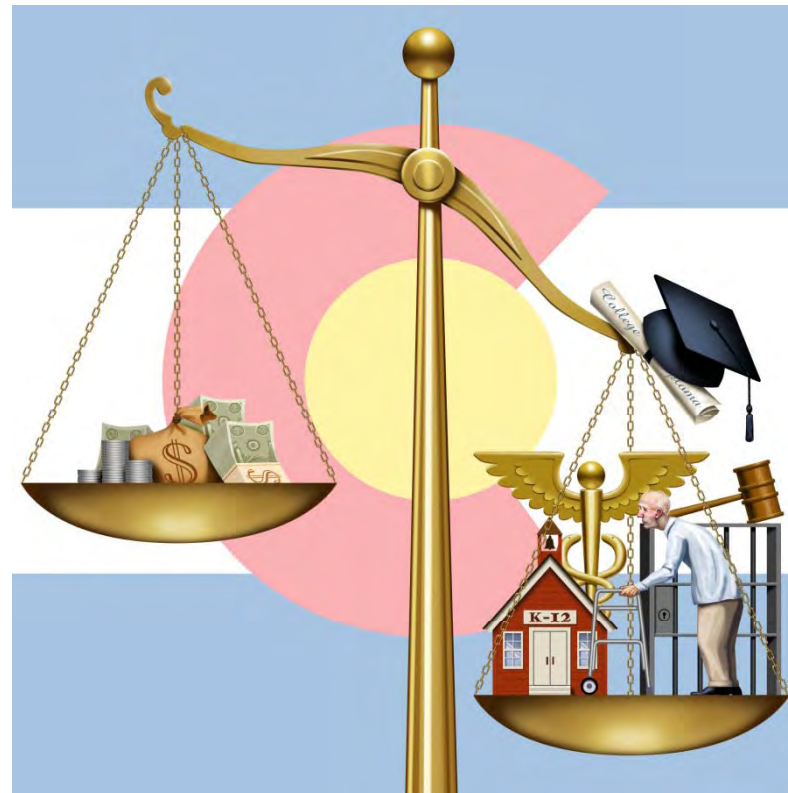

FINANCING COLORADO'S FUTURE

An Analysis of the Fiscal Sustainability of State Government

UPDATE



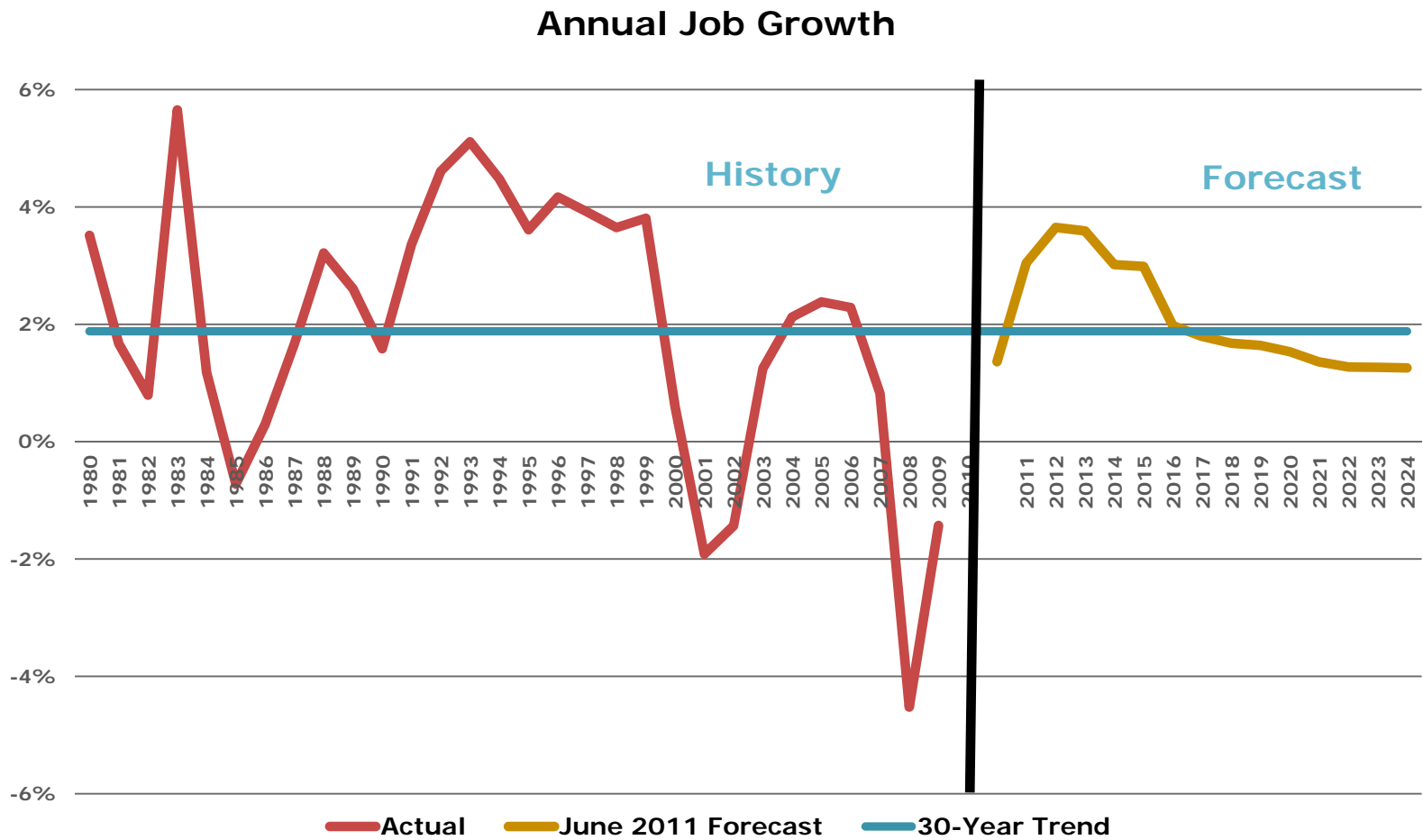
Center for Colorado's
Economic Future

www.du.edu/economicfuture

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 may have a brief window of time to devise solutions.

Colorado's Economy is Recovering

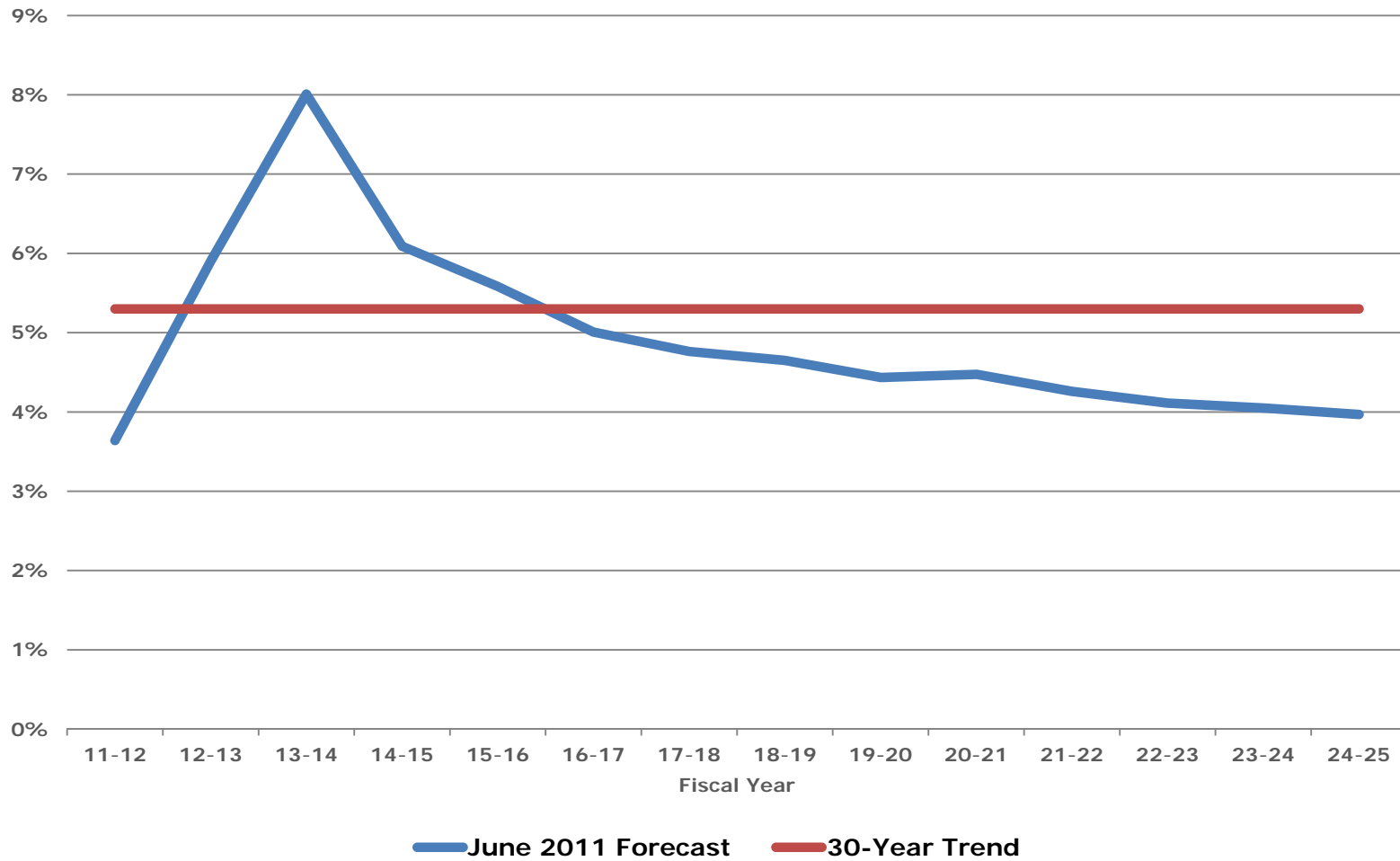


Source: CBEF state macroeconomic model

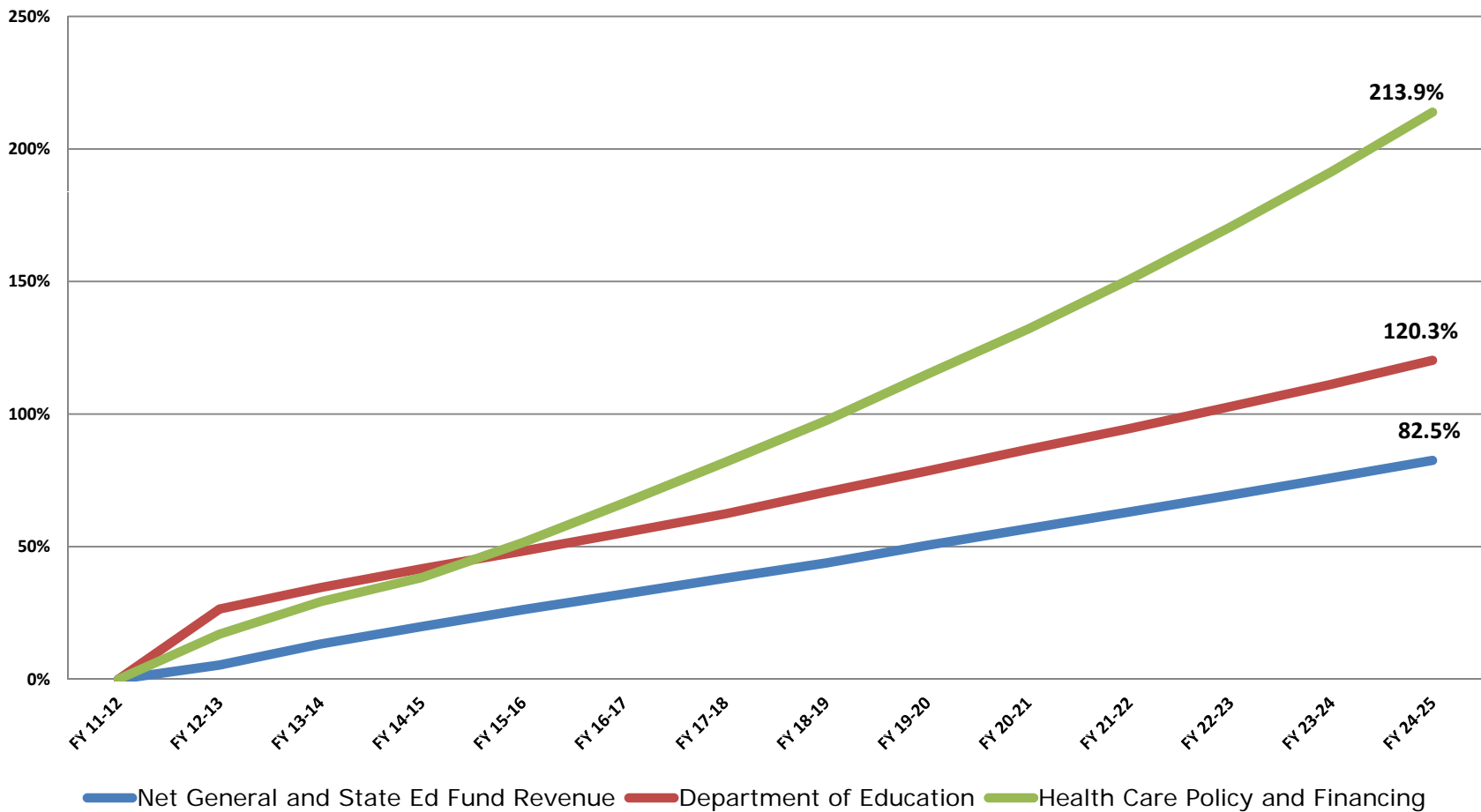
Strong Revenue Growth

General Fund & State Education Fund Revenue Forecast

FY 2011-12 to FY 2024-25

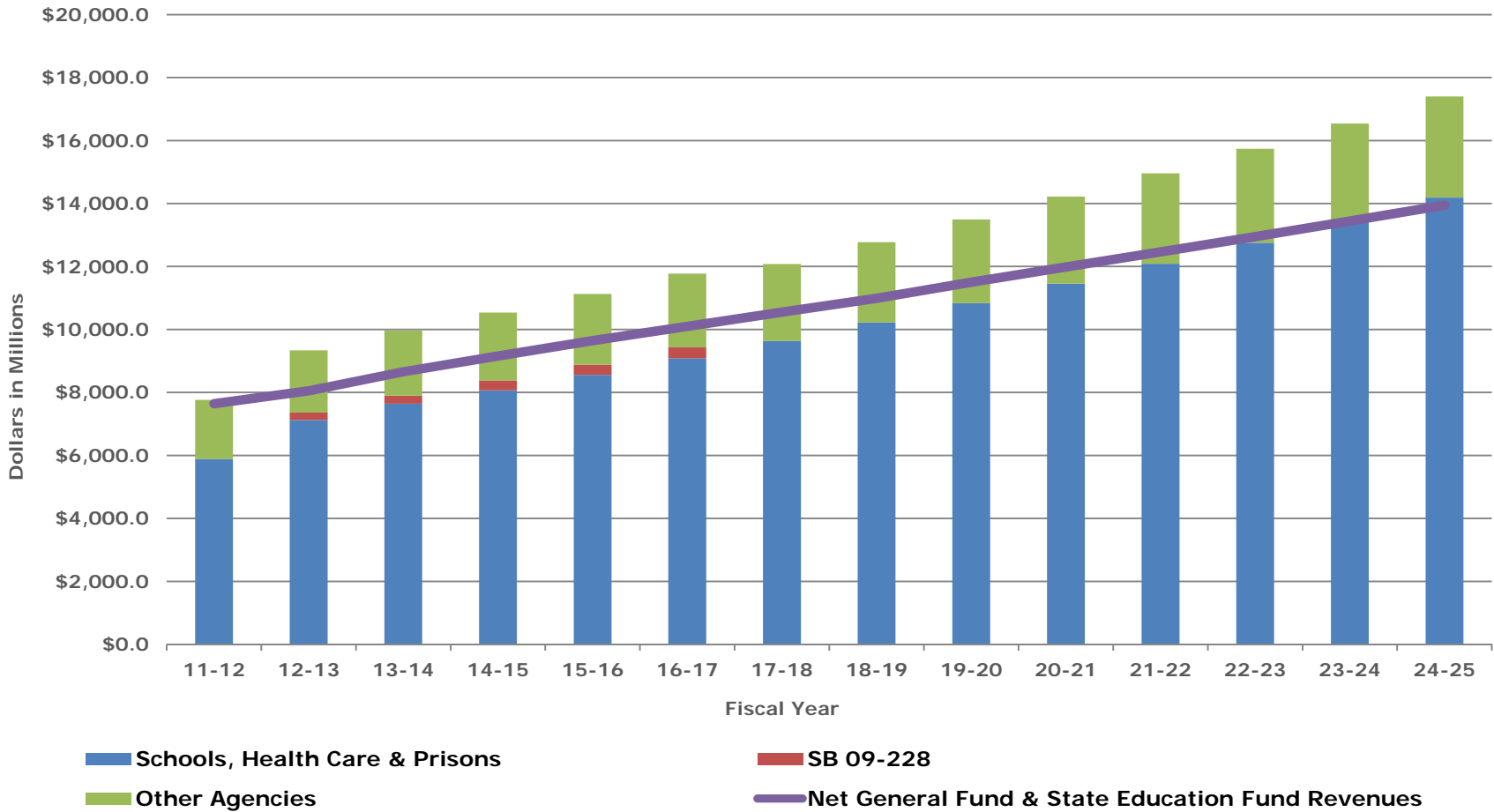


But Colorado's Structural Budget Problems Will Worsen



A Widening Gap

General Fund Revenues vs. Expenditures FY 2011-12 to FY 2024-25

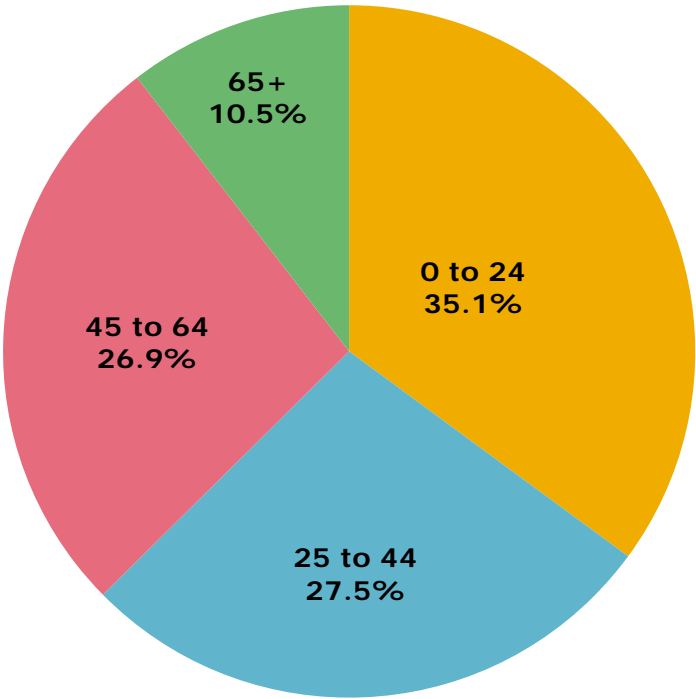


Diagnosis: What is Happening?

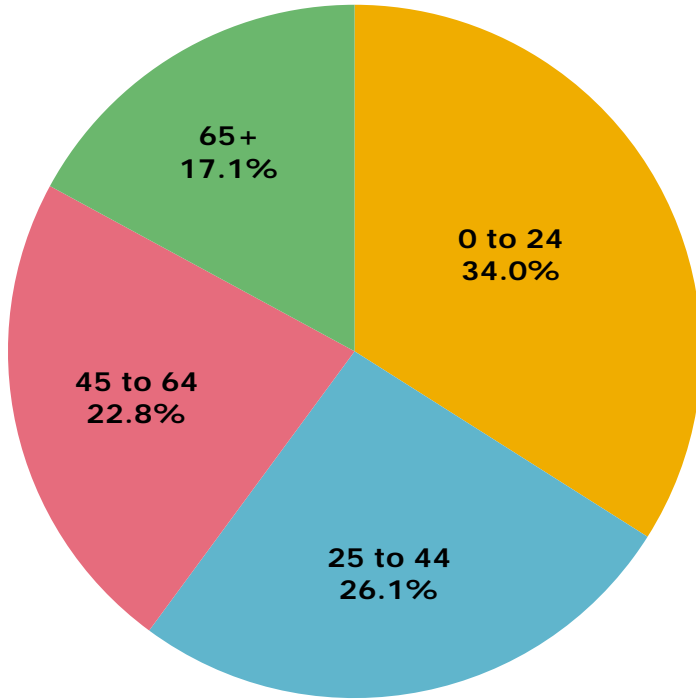
- Structural and demographic changes affect revenue
 - Aging baby boomers
 - Service-based economy
 - Tax system features
- Medicaid growing at 1.7 times revenue
 - Demographics
 - Inflation
- System paying for K-12 education is failing the state
 - Leakage in local property tax

Colorado is Aging

2010



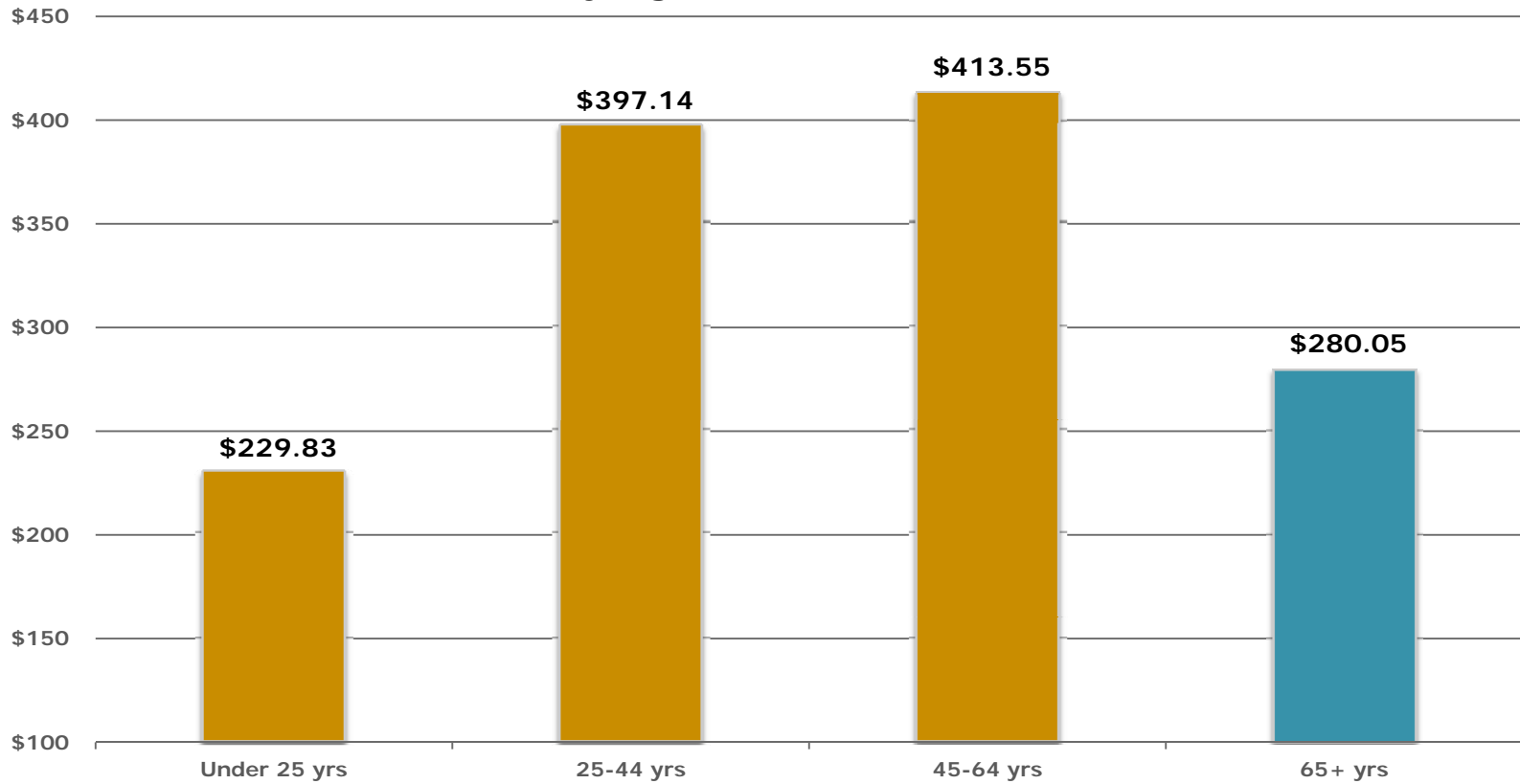
2025



Source: Colorado State Demography Office

Aging Affects Revenue

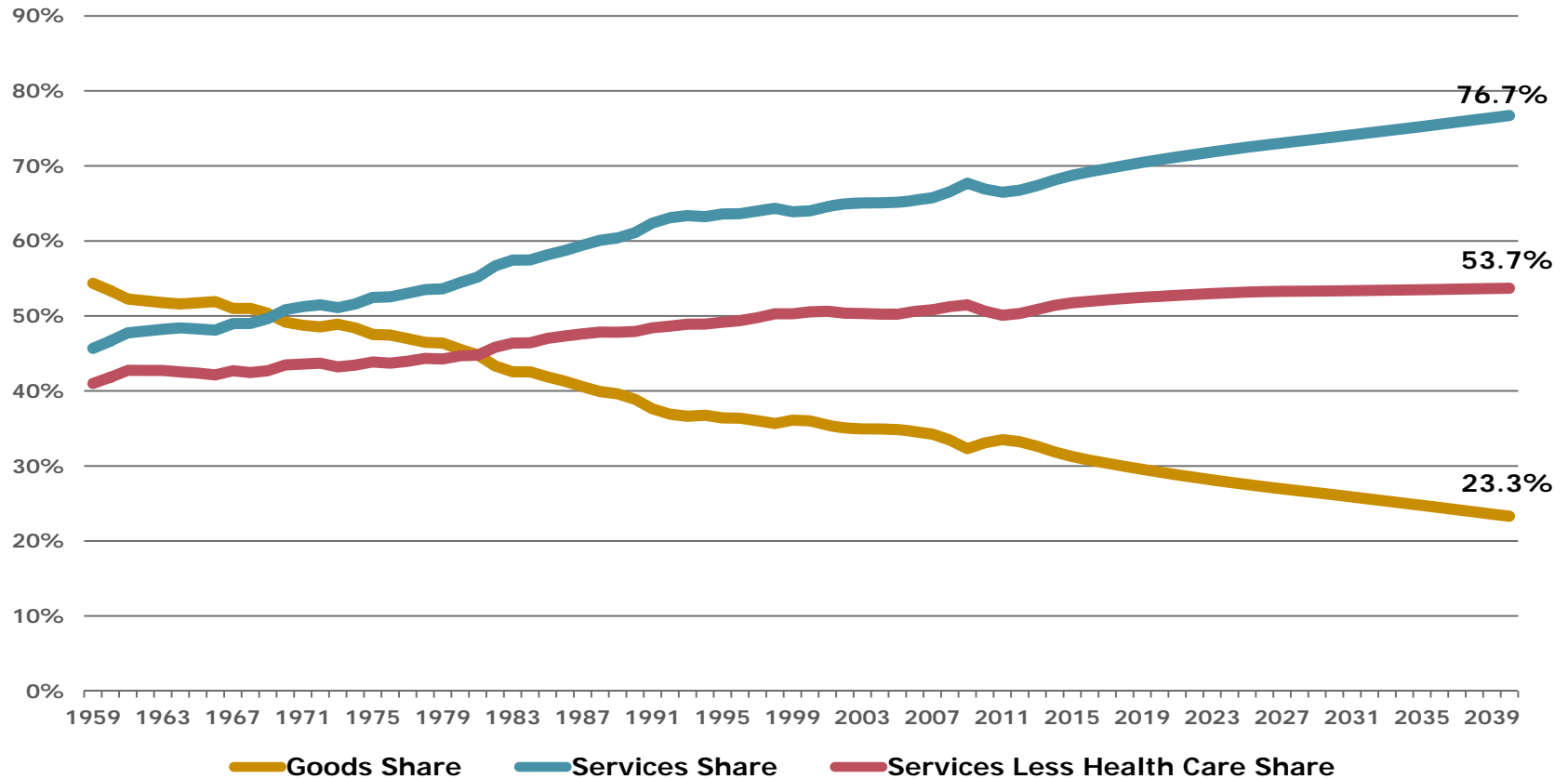
Patterns of Household Contribution to the Sales Tax Base
by Age of Householder



Source: Consumer Expenditure Survey, BLS

The Economy is Changing

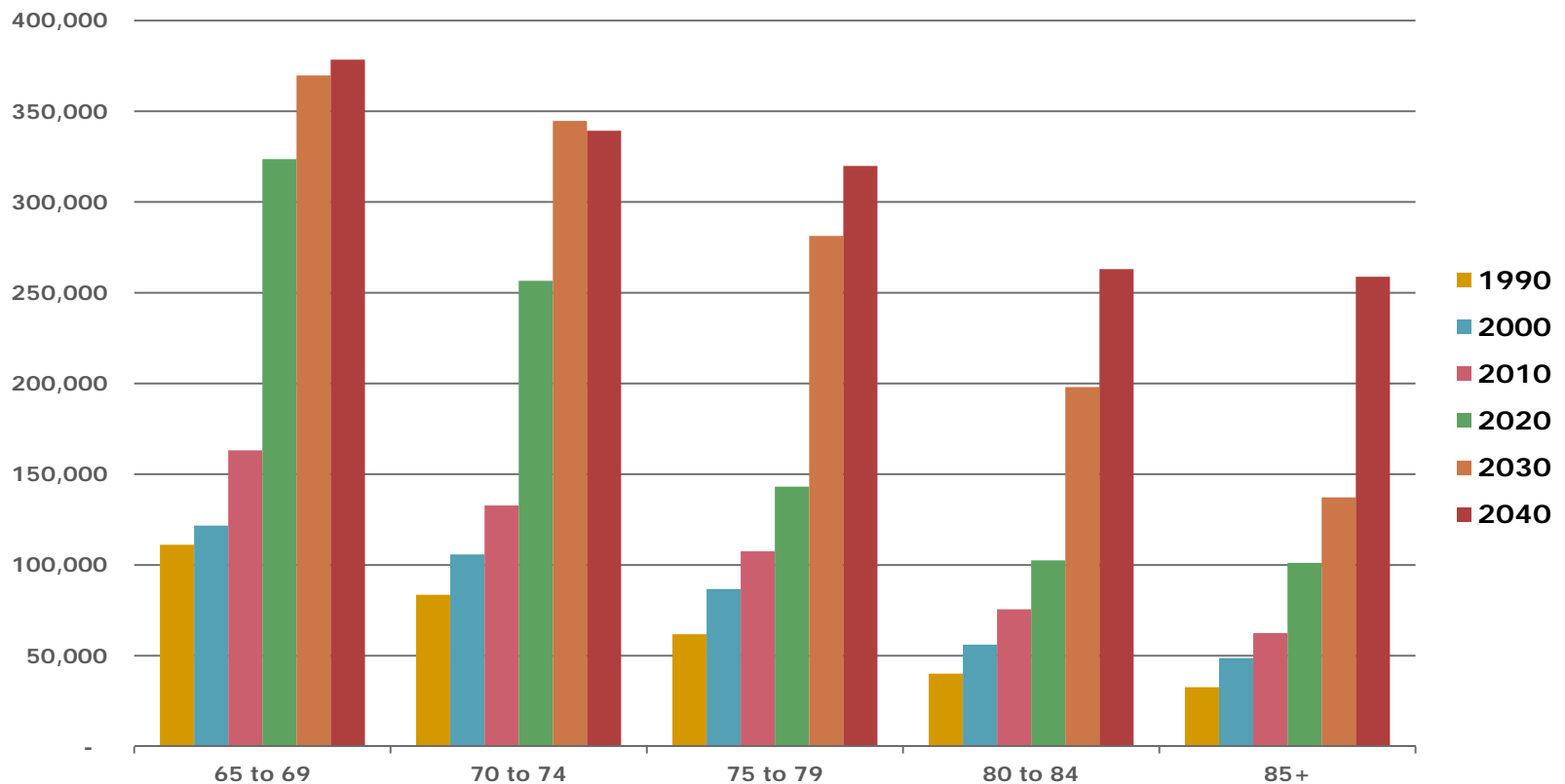
Personal Consumption Expenditures for Goods and Services
as a Share of Total: U.S. History and Forecast



Source: Moody's Economy.com

Baby Boomers in Retirement Will Impact Medicaid

Colorado's Population by Five-year Age Groups 65+ 1990 to 2040



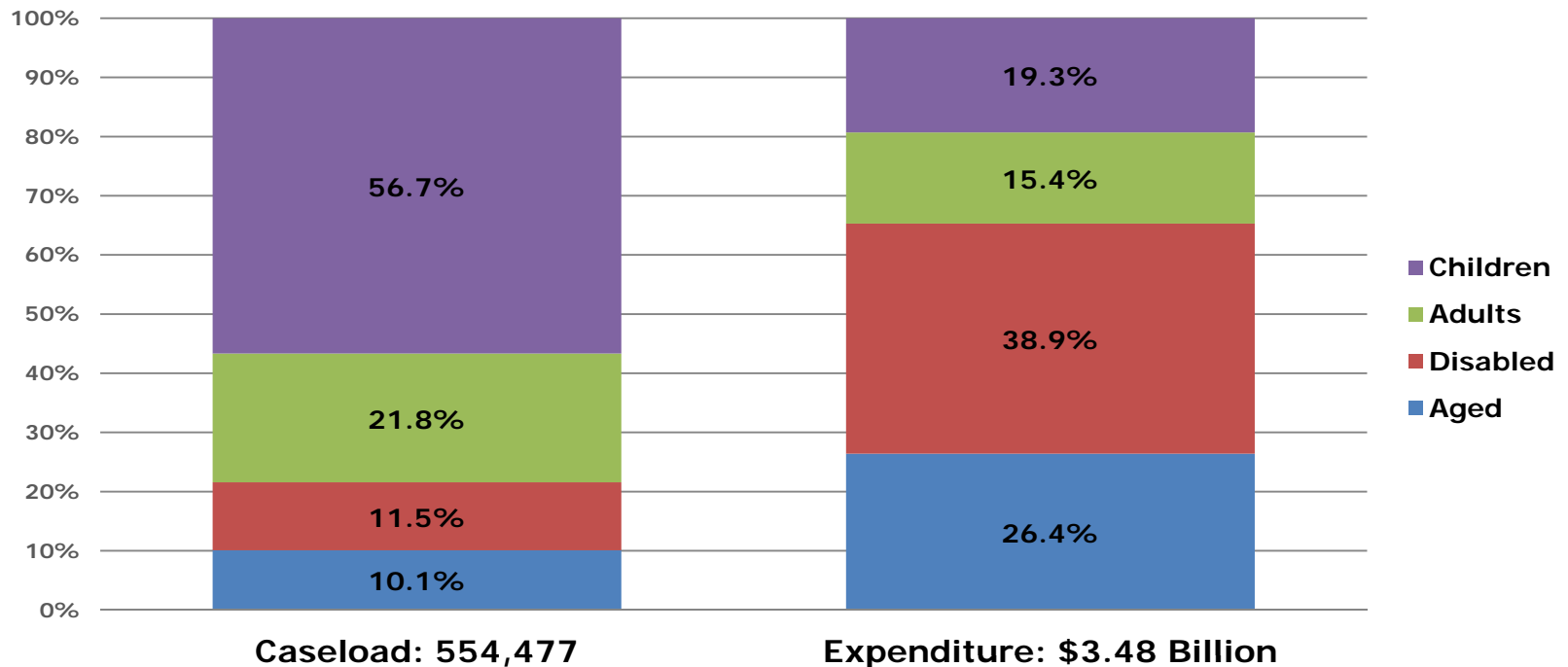
Source: Colorado Demographer's Office

And Aged Care Represents a Disproportional Share of Cost

Medicaid Enrollment vs. Expenditures

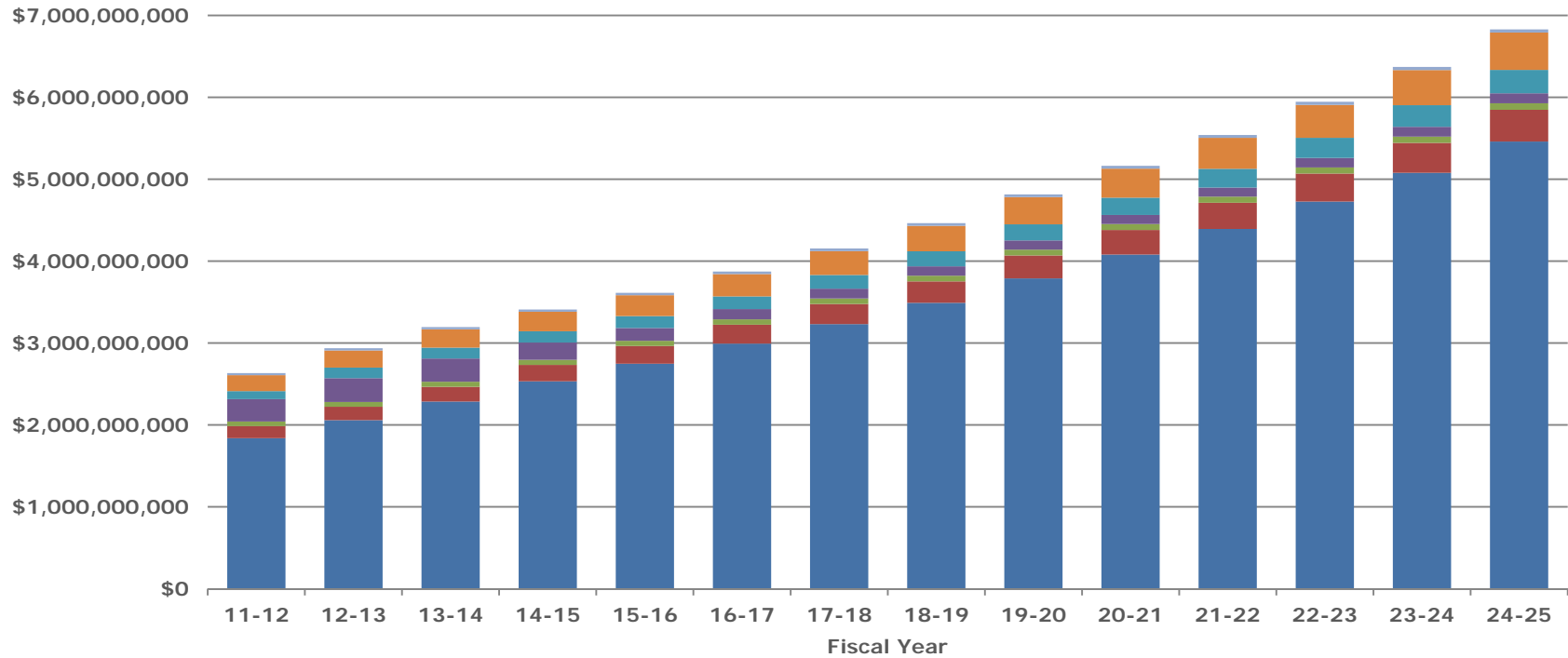
FY 2010-11

(includes Medical Service Premiums, Mental Health & DHS Programs for Developmentally Disabled)



A Full Departmental Forecast Shows Growing Spending in Other Medicaid Programs

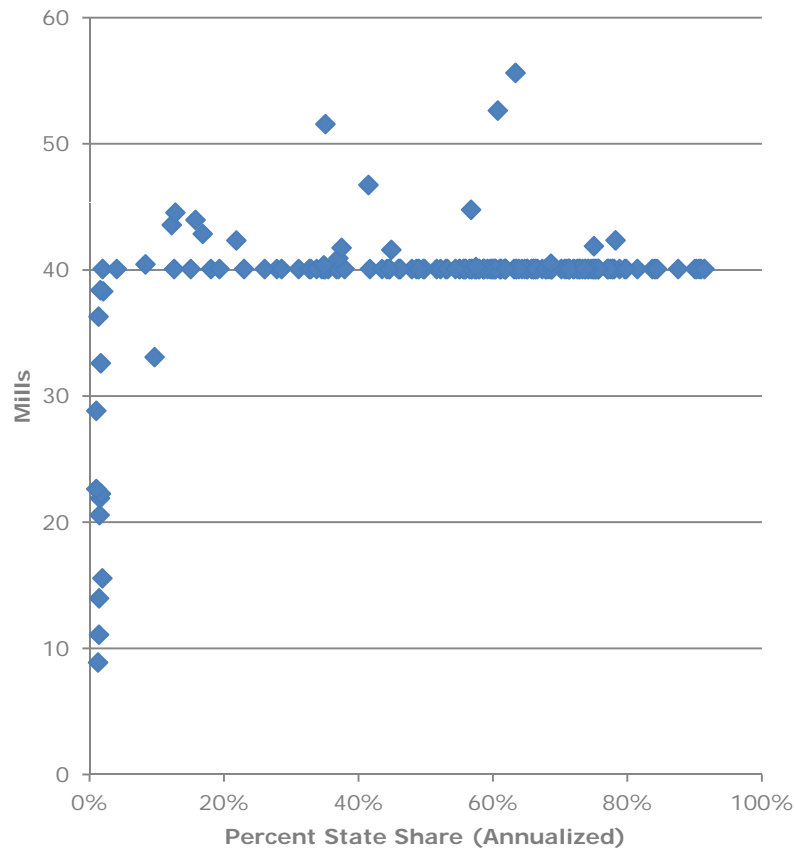
HCPF Expenditures by Division FY 2011-12 to FY 2024-25



- Medical Service Premiums
 Mental Health
 Executive Director
- Indigent Care
 Other Medical Services
 DHS DD Programs
- DHS Other Programs

K-12 Local and State Shares: The Problem Illustrated

FY 1991-92



FY 2011-12

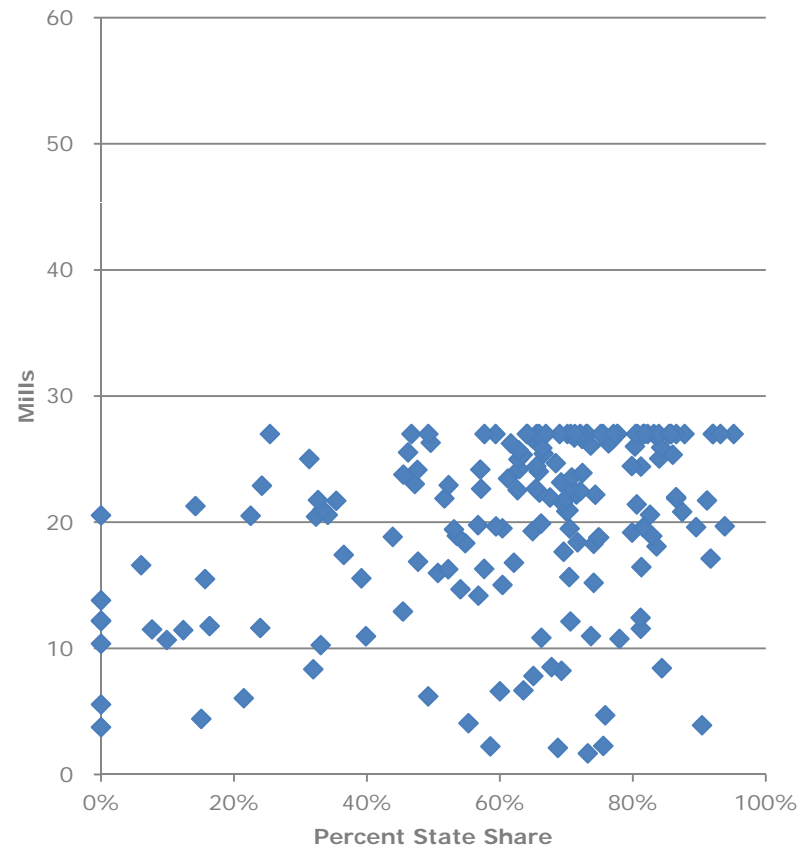


Illustration: How Could the Gap be Closed with Cuts?

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

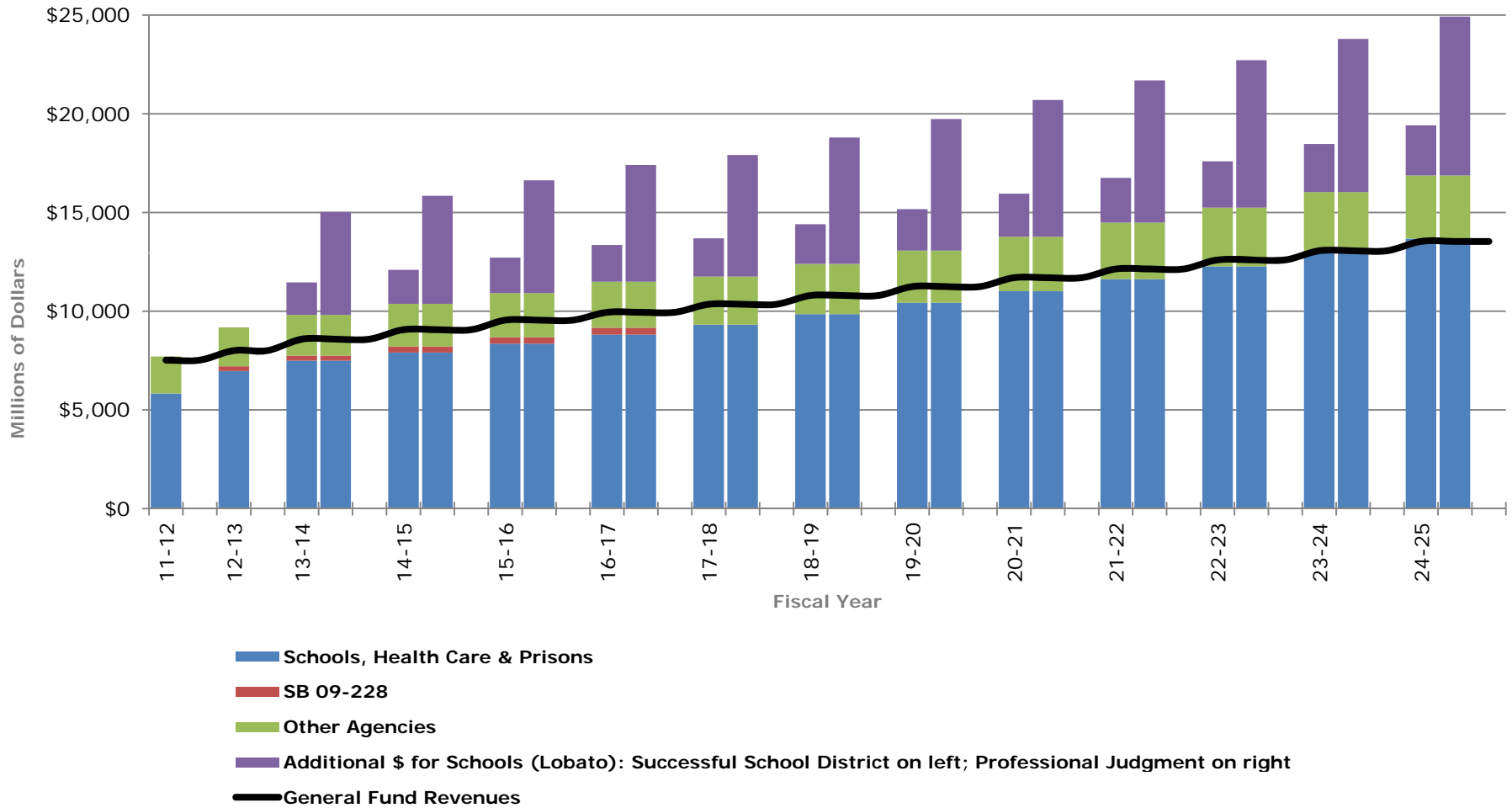
Illustration: Methodology of Closing the Gap With Taxes

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%

The Impact of Lobato on the Gap: State General Fund Revenues vs. Expenditures

FY 2011-12 to FY 2024-25



Thank You

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

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



Center for Colorado's
Economic Future

www.du.edu/economicfuture