COLORADO'S REVENUE BASE

PART 2

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Introduction

In Part One of our series, we looked at Colorado's public funding history and illustrated how the state's General Fund became more constricted when taxes were cut. We also showed how voters and legislators have continued to add programs and commitments to our budget over the years with little new revenue to pay for them.

While all states struggle to balance their budgets, Colorado's unique constitutional restraints mean it cannot simply rely on the growth of the state economy to meet the needs of communities. Under TABOR, Colorado's General Fund can only grow by population plus inflation. This limit, colloquially known as the TABOR revenue cap, significantly limits the size of Colorado's budget and negatively impacts our ability to fund imperative state services.

In Part Two of this series we examine the projected need and costs of certain state services relative to the TABOR cap. Growing demand for services in areas that have mandated spending – K-12 education, the state's obligation under Medicaid, and corrections – will consume more of the budget going forward. This will have significant consequences, limiting the availability of other services in our state and forcing tough choices in other areas many of us rely upon.

Fortunately for Coloradans, federal funding and stimulus relief during the COVID-19 pandemic have helped keep the budget afloat – even though we cut statewide income taxes and assessment rates for property taxes, reducing the tax revenue coming into the state. However, the federal funding through the American Recovery Plan will run out after 2024, and Colorado will have to turn to sustainable funding through the General Fund and other designated sources to support the needs of Coloradans. This second part of our report series looks at the state of Colorado's obligations when that happens, and how we can plan our finances accordingly.

Current Trends, Pressures, & Future Projections

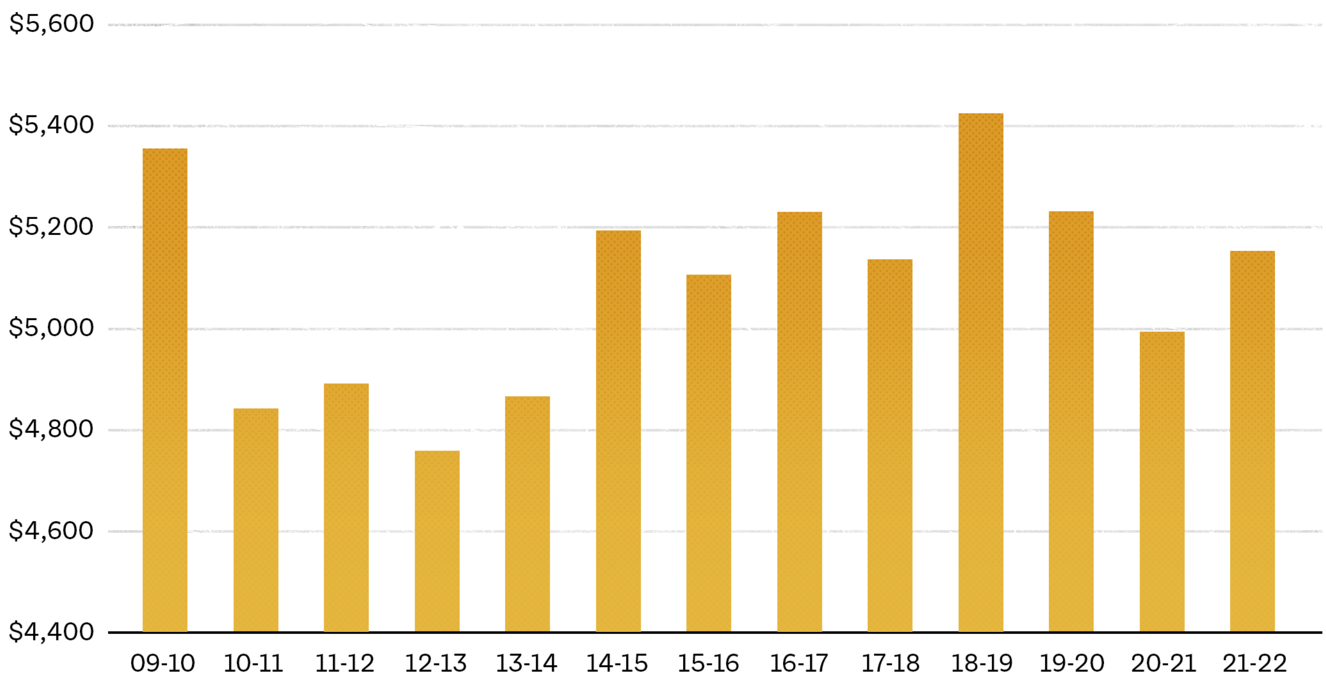
Projecting the needs of Colorado, and associated spending, is difficult, given the numerous variables that influence the use of state programs. Fortunately, Legislative Council Services provides some granular projections on pupil counts for education and bed counts for corrections, and statewide demographic data and nationwide estimates on growth and inflation can provide general estimate baselines.

Of course, future legislatures will determine exact levels of spending depending on economic conditions, and those could be higher or lower than our projections. Nevertheless, these estimates provide a good, conservative baseline that can be adjusted after the fact with better data.

K-12 Education

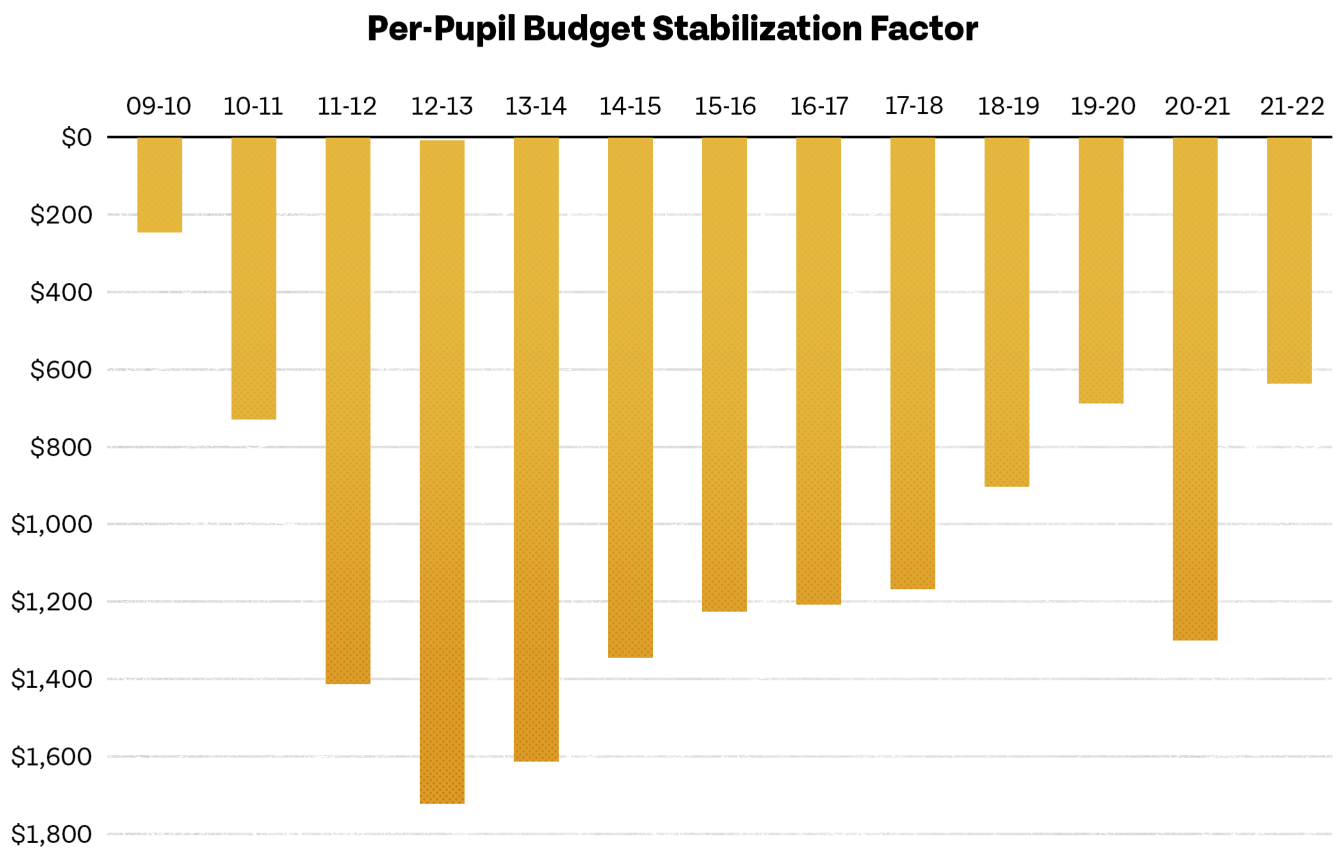
Total per-pupil funding in Colorado has fluctuated since the Great Recession, with a large change in 2019-2020 due to the institution of full-day kindergarten. Colorado increased pupil counts by 3 percent, as kindergartners in the state went from counting as one-half of a pupil to a full one. This led to an increase in state and local funding by 4.6 percent, with the state-only share increasing by 3.6 percent. It's important to understand that funding for this change came from existing revenue.

State Share of Per-Pupil Funding Over Time (Inflation Adjusted)



Source: Bell Policy Center analysis of Joint Budget Committee data

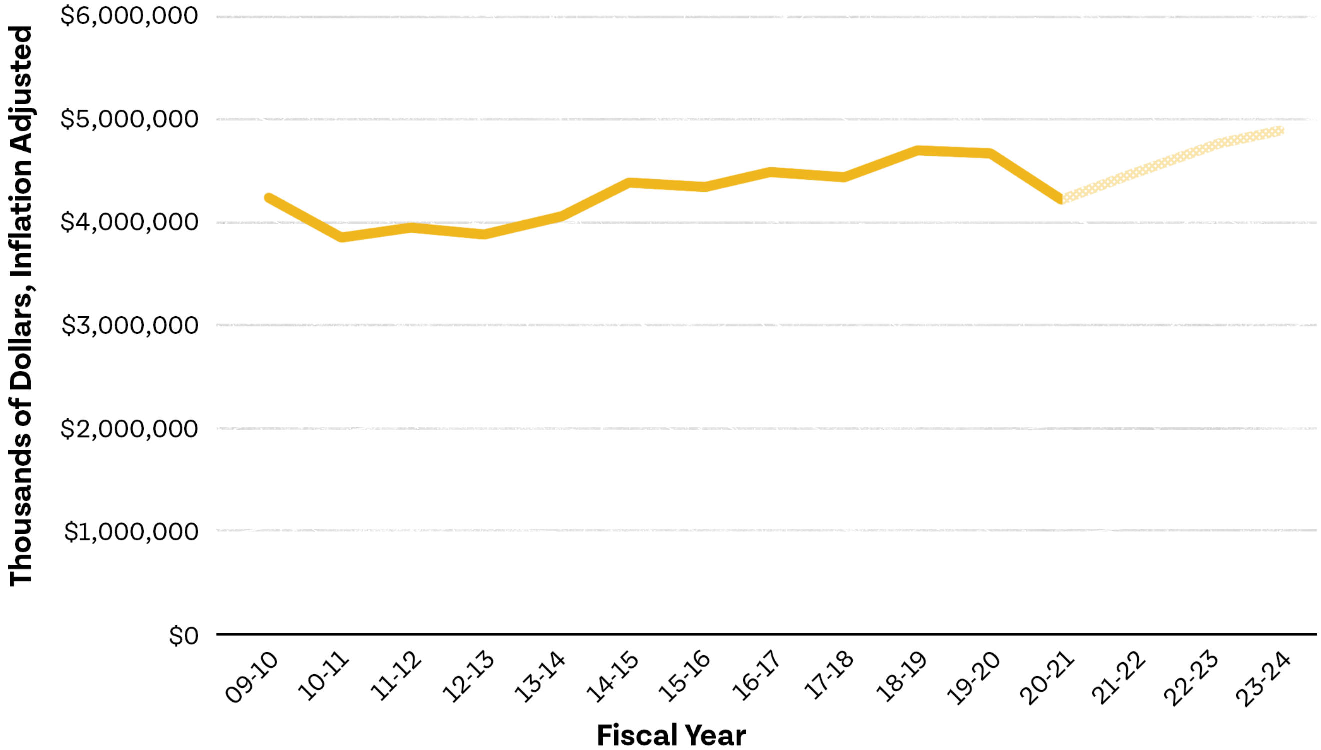
Unfortunately, Colorado has not maintained constitutional spending requirements since the onset of the Great Recession, leading to a measure of underfunding known as the Budget Stabilization Factor (BS Factor). Because of spending restraints, Colorado instituted the BS Factor to track how much the state is funding K-12 education below the constitutional formula. In the current fiscal year, FY 2021-2022, the BS Factor is $571 million. Since it was instituted in 2009-2010, it has averaged around $750 million per year. The per-pupil share of the BS Factor can be seen below, showing that in FY 2021-2022, state and local governments underfunded students by over $600 per pupil.



Source: Bell Policy Center analysis of Joint Budget Committee data

While K-12 enrollment is not expected to rise substantially in the near future, that doesn't mean the state's commitment to K-12 education is projected to be flat. In fact, just to keep per-pupil funding at its current rate – according to 2018 data from the [Colorado School Finance Project](), Colorado is 43rd in the nation in per-pupil funding – Colorado would still owe $570 million to school districts through the BS factor. Increasing the per-pupil funding would decrease the BS factor, but would require more room in the overall budget. Keeping in mind the volatility of enrollment trends during the COVID-19 pandemic, the share of the General Fund going to K-12 education is expected to drop slightly, but still be significantly more than one-quarter of the General Fund budget.

State Share of K-12 Spending

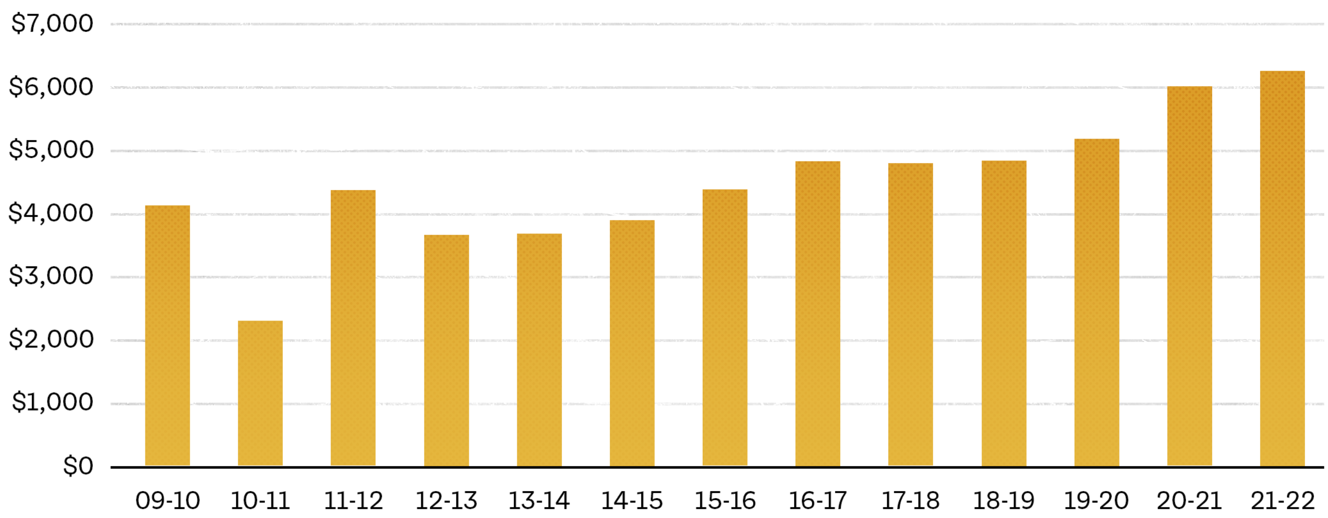


Source: Bell Policy Center analysis of Joint Budget Committee data

Higher Education

Higher education spending is unique because it is the major service area in the budget over which the General Assembly has complete discretion. The discretionary nature of this department results in significant cuts during recessionary years, as was starkly seen during the Great Recession.

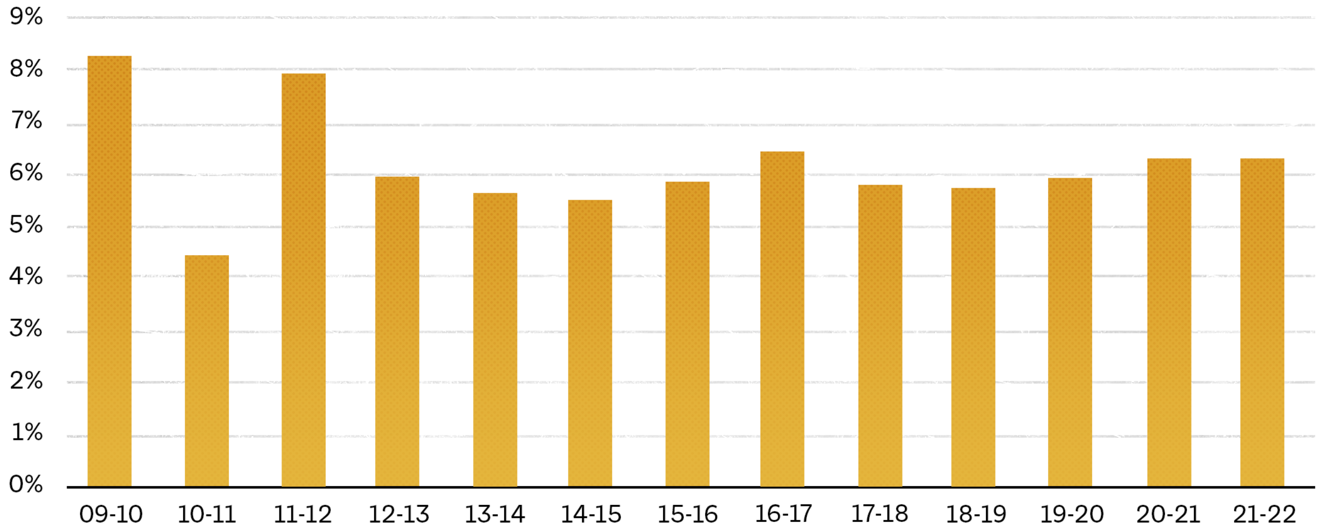
Higher Education Spending Per Resident Student



Source: Bell Policy Center analysis of Joint Budget Committee data

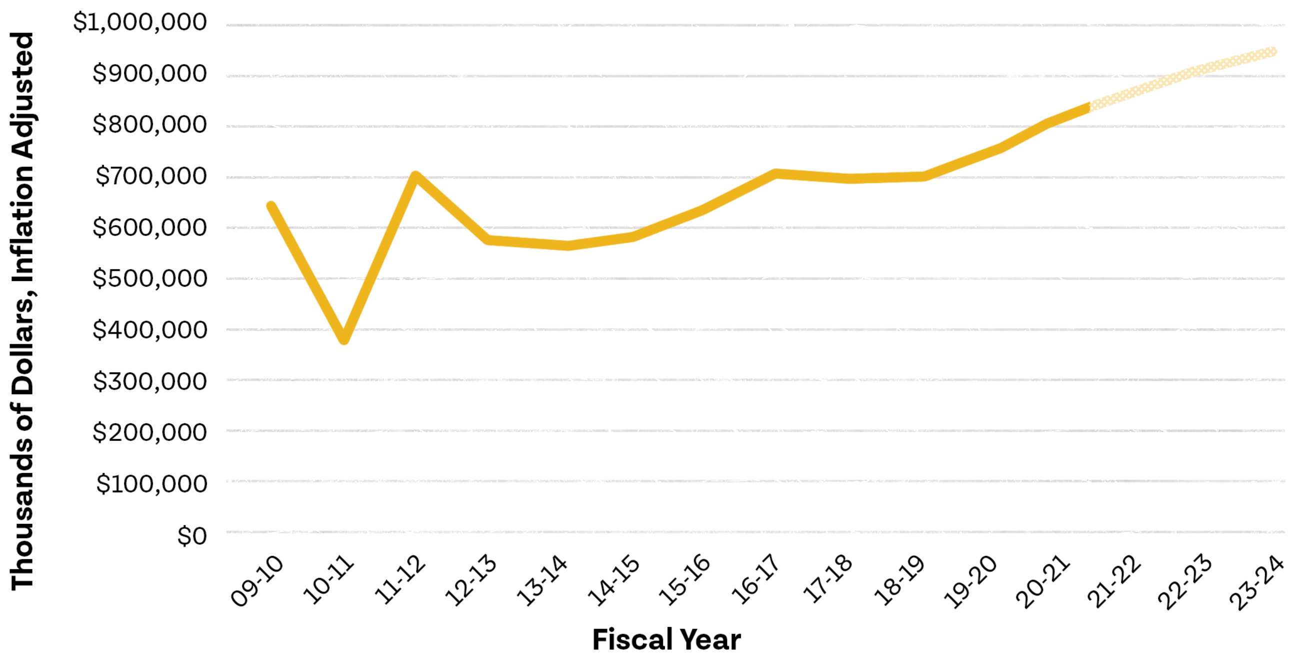
Higher education is also different from other departments because demand for its services reacts to the economy and workforce trends rather than simply demographic trends. While postsecondary credentials are increasingly valued by employers, higher education is only accessible with continued and bolstered state investment. Disinvestment by the state over time has placed a growing burden on students, since institutions rely on tuition revenue for funding, which exacerbates gaps in access, especially for Coloradans of color. Federal relief funds have helped institutions weather the tide of decreased enrollment caused by the pandemic, but when these dollars run out, Colorado will continue to face the dilemma over how to invest in its higher education within a constrained state budget.

Higher Education Spending as Percent of General Fund



Source: Bell Policy Center analysis of Joint Budget Committee data

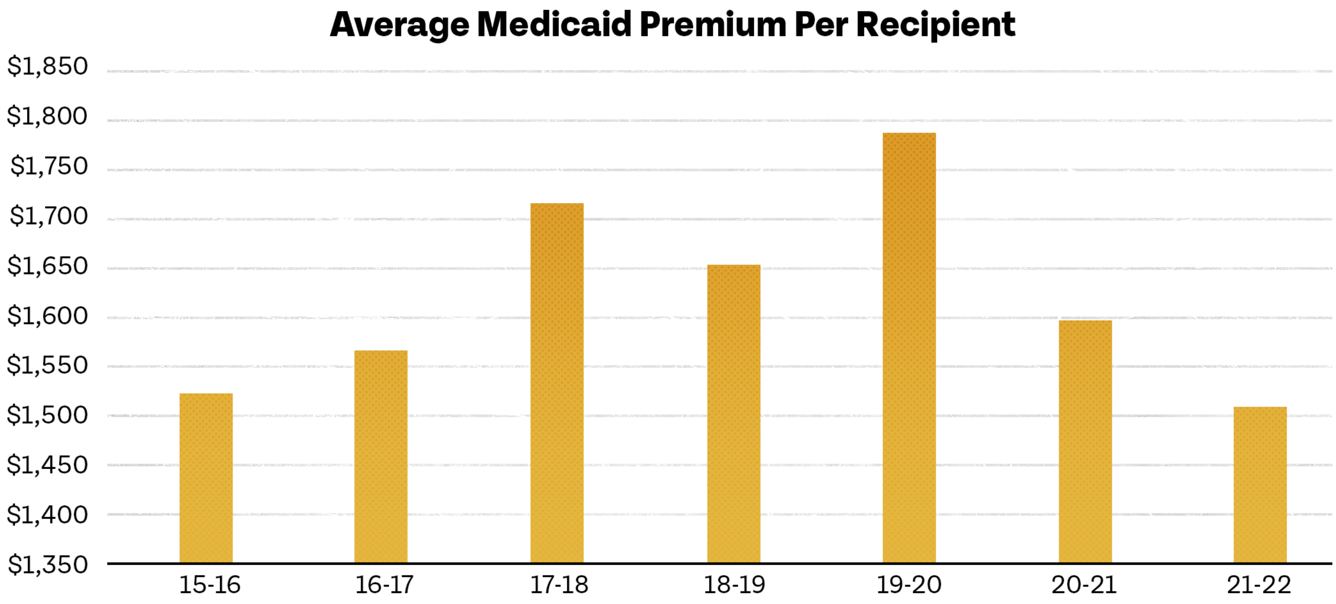
Higher Education Spending

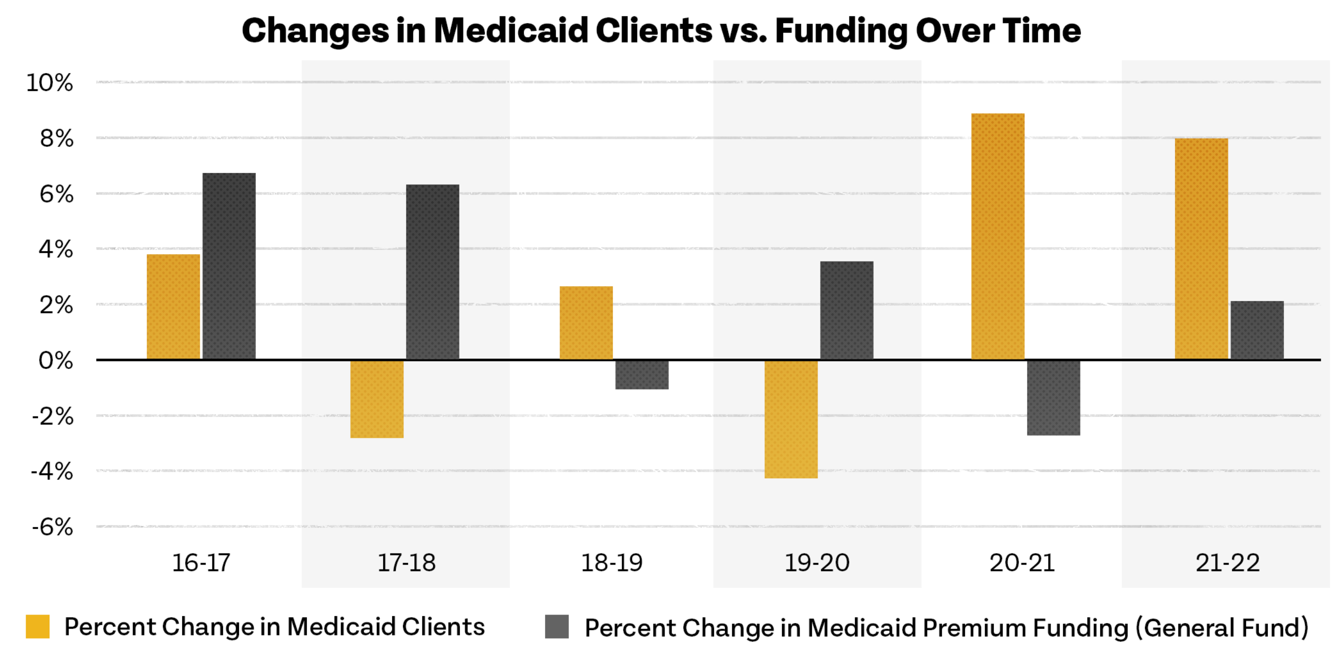


Source: Bell Policy Center analysis of Joint Budget Committee data

State Share of Medicaid

The state match for Medicaid funding is the single largest line item in the Department of Health Care Policy and Financing – a consistent 17 percent to 19 percent of the entire General Fund during the 2010s. The "Medical Services Premium" line item is health care funding, including medical services and long-term care services, for Medicaid patients in Colorado. While this budget line item receives funding from cash funds and federal funds, this report only looks at General Fund funding, as state lawmakers have the most control over that pot of money.





Source: Bell Policy Center analysis of Joint Budget Committee data

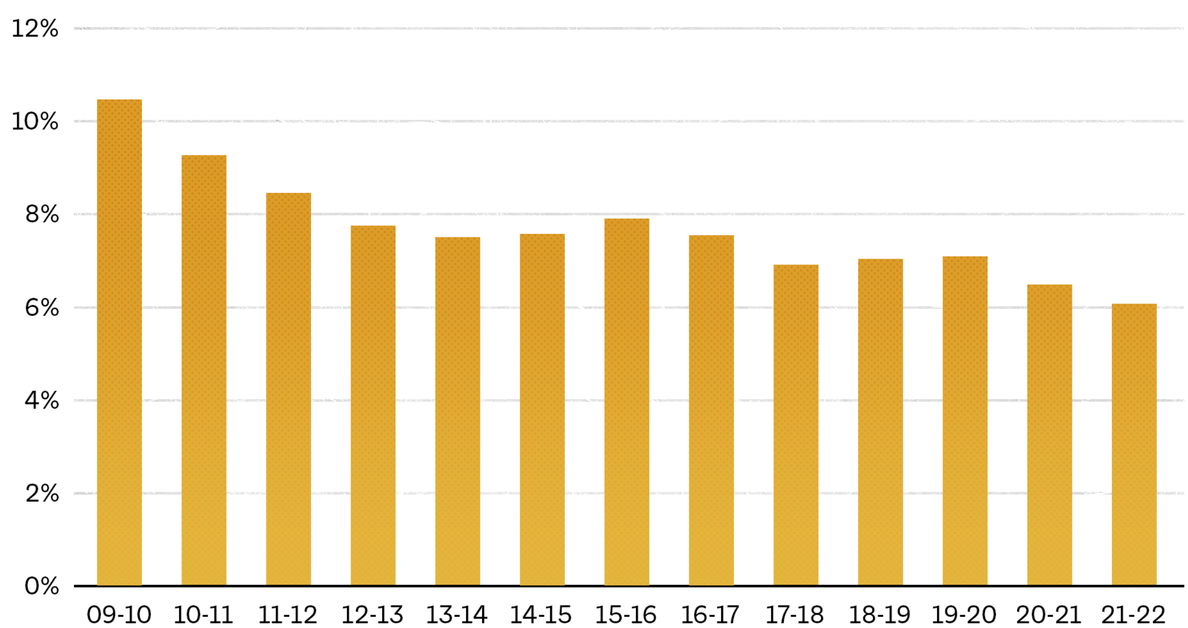
In 2014 the state expanded Medicaid eligibility, adding a number of newly eligible Coloradans to the Medicaid rolls as part of the Affordable Care Act (ACA). As part of ACA, the federal government paid for the expanded eligibility at the outset, while gradually reducing its commitment over time. That meant Colorado slowly assumed more of the cost, leading to an increase in Medicaid spending through FY 2015-2016. That is also why there is a significant increase in the Medicaid population in 2013 and 2014. The drop in state funding in 2019-2021 is a response to the increased federal government spending on health care as a result of the COVID-19 pandemic.

According to the Centers for Medicare and Medicaid Services, Medicaid spending is expected to grow at 6 percent on average between 2020 and 2027. For Colorado, this 6 percent increase is very close to the expected increases in the TABOR cap – the projected addition of population growth and inflation. This increase would put the state share of Medicaid premium spending at about 18 percent of the General Fund budget. Combined with K-12 education spending, that would be more than 45 percent of the budget for just two important programs.

Corrections

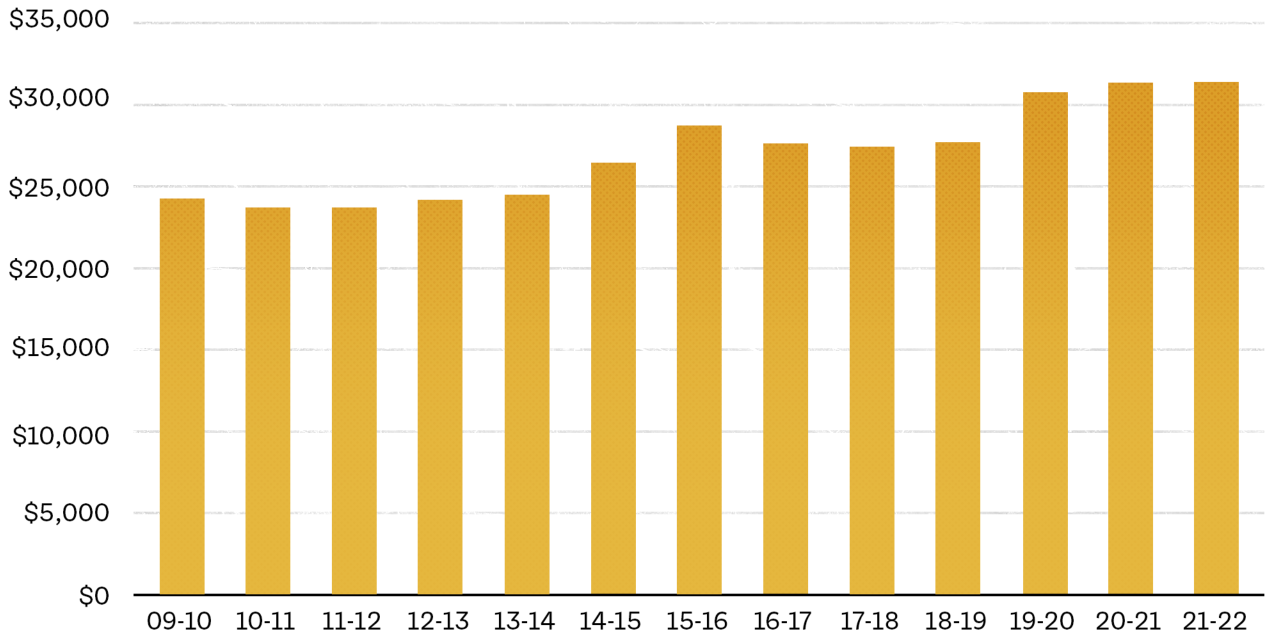
It is important to include corrections spending in these analyses, as it is a mandated portion of the General Fund budget and there are very few, if any, other sources outside the General Fund funding this program area. In the 2019-2020 budget, nearly 90 percent of funding for the Department of Corrections came from the General Fund.

Corrections as Share of General Fund Spending



Source: Bell Policy Center analysis of Joint Budget Committee data

Corrections Spending Per Person



Source: Bell Policy Center analysis of Joint Budget Committee data

Since 2009-2010, spending for the Department of Corrections has consumed around 7 percent to 10 percent of the total General Fund budget, with more recent years being on the lower end of that range. In per prisoner and parolee terms, it has been a fairly narrow band of spending for the most part – spiking to over $26,000 per person in 2015-2016 before flattening out. The numbers then increased significantly on a per-prisoner basis during the pandemic years, as there was a reduction in prison population to try and stem the virus, so the money per person increased significantly – a trend that seems unlikely to repeat in future years.

The Department of Corrections budget is difficult to forecast, given uncertainties with prison populations during the COVID-19 pandemic. Looking at forecasts from Legislative Council Services, as well as some educated estimates based on past trends and national projections, we surmise that a 3 percent growth in spending is a conservative baseline to base projections.

Those numbers would hold spending for the Department of Corrections relatively steady as a share of General Fund spending, with an increase in FY 2023-2024 accounting for growth from inflation.

Long-Term Care

As our relatively young state ages, more Coloradans will depend on care from both paid and unpaid caregivers. However, the state share of paying for paid caregivers is already significant. In 2018, the Colorado Health Institute, in contract with the Strategic Action Planning Group on Aging (SAPGA, of which the Bell Policy Center is a member), researched and published a report looking at the future responsibilities for the state concerning long-term care supports and services.

State spending in this area is hard to capture because it is routed through multiple state agencies and programs – mostly within the Colorado Department of Health Care Policy and Financing and the Colorado Department of Human Services. While some of the costs overlap with the state portion of Medicaid funding described above, this section describes more than just what is just captured in the above line item. In fact, long-term care is an example of how cross-agency funding growth can impact many parts of the state's budget. In 2018, Colorado paid $630 million for long-term care through Medicaid, a large plurality of it going to skilled nursing costs. The average cost per enrollee was anywhere from $930 per person to $5,725 per person, depending on the program and need of the individual. In total, that money is a little more than 5.5 percent of the FY 2017-2018 General Fund budget.

State-funded LTSS Programs At a Glance

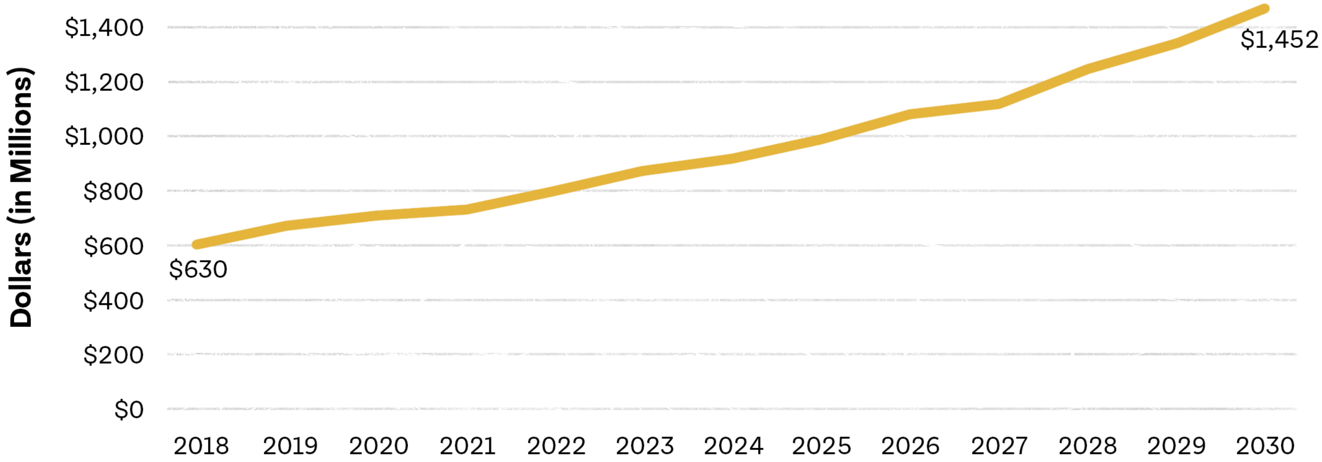
Program	Administered By	Funded By	Mean Cost per Enrollee per Month, FY2018	Full-time Equivalent Enrollees, FY2018*
Home-based Services	CDHS	Federal funds; state general funds; state cash funds; local cash funds	$930	44,085
Long-term Home Health	HCPF	Federal funds; state general funds	$2,528	151
HCBS Waver	HCPF	Federal funds; state general funds	$3,186	11,406
PACE	HCPF	Federal funds; state general funds	$3,729	3,164
Assisted Living	HCPF	Federal funds; state general funds	1,597	2,061
Skilled Nursing	HCPF	Federal funds; state general funds	$5,627	8,268
Residential Habilitation	HCPF	Federal funds; state general funds	$5,725	505

*Because not every Medicaid beneficiary uses these services for the full year, "full-time equivalent" refers to 12 beneficiary months. For example, one Medicaid beneficiary using three months of a service and another Medicaid beneficiary using nine months of a service will count as one "full-time equivalent" in the caseload totals.

Source: Colorado Health Institute Long Term Care Study

By the end of 2022, the state share of spending on long-term care is expected to cross $800 million, and by FY 2025-2026 it will exceed the $1 billion mark. This expected, but significantly increased, cost will have to come from somewhere.

Increase in State Costs to Provide LTSS for Older Adults, FY 2018-FY2030

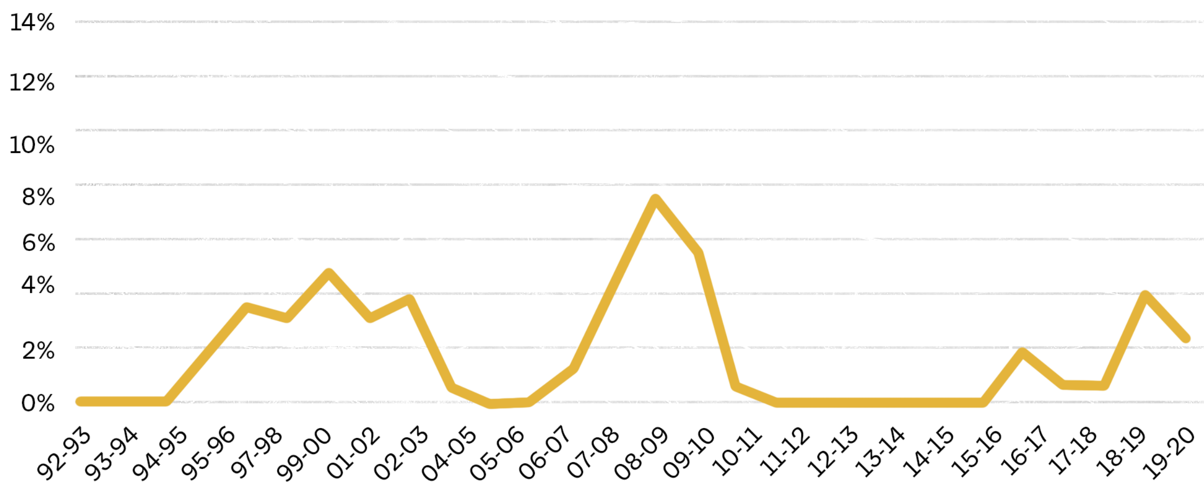


Source: Colorado Health Institute Long Term Care Cost Study

Transportation

Because transportation funding has fluctuated so wildly with the economic conditions, there has been immense pressure to fund transportation infrastructure sustainably. An example of how the Colorado legislature can adjust to the fiscally restrained reality can be found in the 2021 legislative session.

Transportation Funding as Percent of General Fund (Inflation Adjusted)



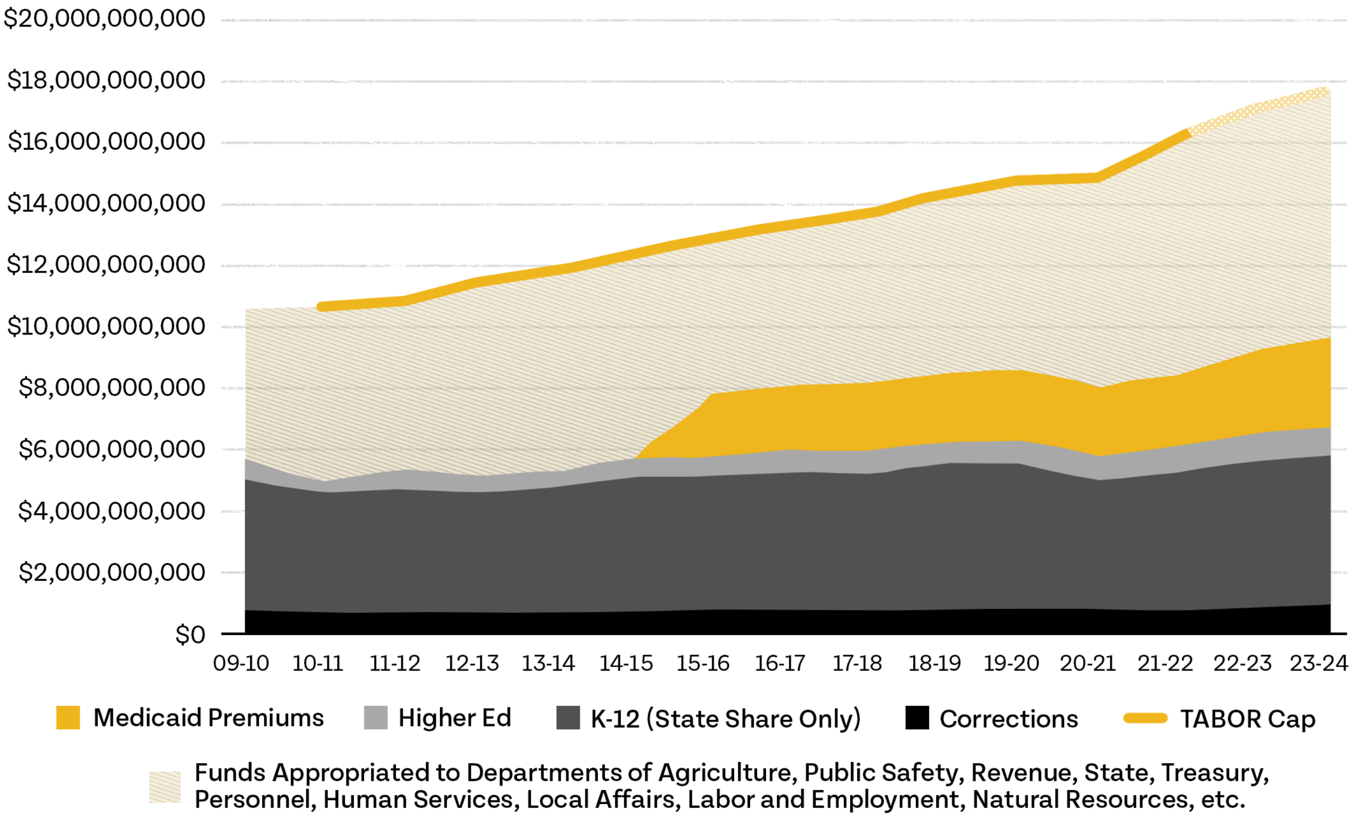
Source: Colorado Health Institute Long Term Care Study

Colorado legislators knew the only solution was to find revenue that would support real long-term investment in transportation and transit. As a result, SB21-260 was passed and signed into law. This law ushers in new fees directly related to road, bridges, and transit infrastructure that provide sustainable funding for infrastructure improvements. The new fees will raise around $200 million when fully implemented, giving Colorado ongoing funding for crucial transportation and transit projects across the state. This bipartisan investment removes transportation from future liabilities and necessary General Fund spending.

Conclusion

The specific programs and departments outlined above – K-12 education, transportation, state share of Medicaid, and corrections – are critical because Colorado legislators are mandated to fund them. With mandated spending, growth in General Fund operating costs, and the TABOR revenue cap artificially capping spending, Colorado's budget gets very constrained, leaving budget writers with little flexibility. As one of the most rapidly aging states, many of our programmatic commitments will experience growth due to demographic shifts. Combined with inflationary growth, these factors alone will further hamstring our discretionary spending under the TABOR cap limits. This leads to painful choices during budget writing, as many crucial public programs that help millions of Coloradans end up fighting over a smaller and smaller piece of the fiscal pie.

Projected Growth in Key Departments Relative to General Fund



Source: Bell Policy Center analysis of Joint Budget Committee data

In part one of this report, we examined how past choices – about taxes, new programs, and expanding existing programs – have led Colorado to tight budgets and underfunding of various important programs for Coloradans. In part two, we show how future growth in important spending areas will make our budgetary future even more constrained. In the last edition of this larger report we will examine future General Fund growth and how that fits into the projected programmatic increases described here. Is Colorado on a sustainable budgetary path, or will we need to make hard tax and spending choices in the very near future?