

Looking Forward

Colorado's fiscal prospects amid a financial crisis

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A joint research project of



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Looking Forward: Colorado's fiscal prospects amid a financial crisis

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Looking Forward

Colorado's fiscal prospects amid a financial crisis

Executive summary

This report projects the amount Colorado would need to spend to maintain state services at 2007 levels through fiscal year 2012-13 and the amount of revenues that will be generated to pay for them. The costs of services were estimated based on factors that drive the budget, such as the number of students in college, inflation rates and the number of prisoners. It updates our December 2007 *Looking Forward* report.

Our analysis shows that the costs of maintaining 2007 service levels will exceed revenues by \$1.3 billion in fiscal years 2009-10 and 2010-11. The funding gap will fall to \$963 million in fiscal year 2011-12 and \$668 million in fiscal year 2012-13.

Our analysis shows that the lack of revenue is the primary factor constraining state services. Measured as a percentage of Colorado's economy, state General Fund revenues are projected to drop to levels not seen in recent history. They will average 3.3 percent of total state personal income through 2012, which is 21 percent below the 4.2 percent average since 1981.

The state will be able to retain all revenues under the new TABOR revenue limit established by Referendum C through fiscal year 2012-13, and extending the Ref C timeout will not result in additional revenues through fiscal year 2012-13. However, we expect Colorado's economy will grow faster than the new limit and that there will be TABOR rebates at some point in the future.

Repealing the Arveschoug-Bird spending formula removed a ratchet effect that would have diverted more than \$2 billion in General Fund appropriations from operating budgets.

Clearly, Colorado's fiscal condition is dire. Even as we aspire to become an innovative, 21st century state, our financial resources will not allow us to maintain our pre-recession levels of service. It is clear that we are headed down a path that will leave us short in a number of areas. The key question we have to answer is – is that where we want to go?

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Introduction

In December 2007, we released *Looking Forward: Colorado's Fiscal Prospects after Ref C*. That report projected the amount the state would need to spend to maintain 2007 levels of service in fiscal years 2007-08 through 2012-13. Based on our analysis of the state's budget and economic circumstances at the time, we determined that 2007 levels of service were as good as it would get over our study period. We found the state would not only lack the funds to expand services but would likely struggle simply to maintain 2007's levels.

This July 2009 report updates our 2007 projections. Our new analysis is largely driven by two major events since 2007.

First, beginning in 2008, Colorado and the nation entered the worst economic downturn in more than 50 years, and we are not out of the woods yet. This new analysis demonstrates clearly that not only were 2007 levels of service as good as it would get, but that 2007 may well become a high point that will stand out more and more starkly as representing the "good old days."

Second, in the 2009 legislative session, lawmakers repealed the 6 percent Arveschoug-Bird General Fund appropriations formula. Our 2007 report had identified this formula as a major factor in how General Fund revenues would be allocated during the study period. Its repeal means that Arveschoug-Bird will not have a significant effect on our projected

appropriations during the study period.¹

Our findings show that levels of service from major state programs are likely to continue to decline over the next four years – the period of our analysis. And while in the past certain constitutional and statutory provisions (especially the Taxpayer’s Bill of Rights and the Arveschoug-Bird formula) have been primary factors affecting this long-term trend in appropriations, our current analysis shows that the overwhelming factor determining service levels moving forward will be the amount of revenue the state will receive under its existing structure of taxes and tax rates.

While the amounts necessary to maintain 2007 levels of service are likely to grow at roughly the pace of the overall economy, General Fund revenues will continue to shrink as a percentage of the overall economy.

We project General Fund revenues, as a percentage of total state personal income, will reach lows not seen in recent history, averaging just 3.3 percent of total state personal income in fiscal years 2008-09 through 2011-12. This is more than 15 percent below 2007 appropriations levels. It is more than 8 percent below the previous low reached during the 2001-03 recession and more than 21 percent below the average for the previous quarter-century.

What do we mean by 2007 levels of service? We mean the level of services such as K-12 and higher education, health care, human services and corrections that were provided by the state in fiscal year 2007 under the laws in effect at the time. We assume no expansion of services that would require statutory changes, such as changing eligibility requirements for state health care or preschool

How we updated the numbers

To update *Looking Forward* for 2009, we used the same methods as in the original study.² For the state fiscal years 2007-08 through 2012-13, we focused on the five largest General Fund spending areas – K-12 education, higher education, health care, human services and corrections. For fiscal years 2007-08 through 2011-12, we projected state General Fund revenues using the Legislative Council’s June 2009 revenue forecast and followed the trends from these data to estimate revenues for 2012-13. We also used information from the June 2009 forecast to calculate the TABOR excess state revenues cap established by Ref C and the Arveschoug-Bird General Fund appropriations limit.

Future appropriations to maintain 2007 service levels

2007 levels of service

What does that mean?

	State ranking	
	July '07	June '09
Total expenditures		
per \$1,000 of income	49	47
per capita	44	45
K-12 education		
per \$1,000 of income	49	48
per capita	34	32
Medicaid		
per \$1,000 of income	49	49
per capita	47	49
Higher education		
per \$1,000 of income	48	48
per capita	48	48
Highways		
per \$1,000 of income	44	48
per capita	39	48

Sources: *Aiming for the Middle: Benchmarks for Colorado’s Future, 2009 Updated Rankings*, Carol Hedges, Colorado Fiscal Policy Institute, June 25, 2009; *Aiming for the Middle, Benchmarks for Colorado’s Future*, Carol Hedges, Colorado Fiscal Policy Institute, June 20, 2007

programs. We varied the cost of these services only for changes in key budget drivers, such as the number of people eligible for particular programs and, where required by law or dictated by budget practice, inflation. We also calculated the impact of Colorado’s

for each of the five program areas were estimated by analyzing the changes in major budget drivers and any applicable constitutional or statutory spending requirements for each of these program areas using information from the Legislative Council, Joint Budget Committee and data provided by the agencies administering these programs. Actual appropriations were used for fiscal years 2007-08 and 2008-09.³

As we did in the original report, we assumed no change from current policies regarding tax rates, constitutional and statutory budget provisions or program service levels. For most programs, changes in appropriations were driven by growth in the number of people served, such as students enrolled in colleges and universities or the number of prisoners. Appropriations for K-12 education also include the effect of inflation as required under Amendment 23.

constitutional and statutory budget provisions, such as TABOR, Referendum C, Amendment 23 and the Arveschoug-Bird General Fund appropriations formula, which had an impact before its repeal.

It is important to understand that we chose to measure future appropriations against 2007 levels simply because that was the year in which we did our original analysis. We do not necessarily believe that 2007 levels were the “right” levels of appropriations. In fact, there are plenty of factors to suggest they were inadequate. They were already historically low compared to the overall state economy, and they often were at or near the bottom when compared to other states. More important, when measured by outcomes such as graduation rates, college access, the percentage of Coloradans without health insurance or the adequacy of our transportation system, there is significant evidence that the levels of service were falling short of the state’s needs.

Key findings

Finding 1. 2007 was as good as it will get in terms of service levels during the study period. Looking forward, it will not be possible, without substantial changes in law, to maintain 2007 service levels.

Our projections show that the economic downturn will reduce revenues well below the amount needed to maintain funding at 2007 service levels. General Fund revenues will fall short by more than \$1.3 billion in fiscal year 2009-10. The gap is projected to remain at \$1.3 billion in fiscal year 2010-11 before falling to \$963 million in fiscal year 2011-12 and \$668 million in fiscal year 2012-13.

Finding 2. The Arveschoug-Bird spending formula will no longer be a factor in future

General Fund appropriations. Its repeal has removed the ratchet effect that would have diverted more than \$2 billion in future General Fund appropriations away from key operating budgets.

If left in place, Arveschoug-Bird would have locked in cuts needed to balance the budget in tough times well into the future. Because the limit was based on General Fund spending in the previous fiscal year, cuts in operating budgets ratcheted down future spending limits. The ratchet in Arveschoug-Bird reduced allowable General Fund appropriations by \$1 billion due to cuts made to deal with the 2001-03 recession. State services that were cut, or grew more slowly, during the 2001-03 recession have not fully recovered to pre-recession levels, even with the passage of Ref C. The current downturn would have caused the Arveschoug-Bird appropriations formula to ratchet down future General Fund appropriations by \$1.2 billion. When combined with the \$1 billion reduction in allowable General Fund appropriations stemming from the 2001-03 recession, the Arveschoug-Bird limit would have diverted more than \$2 billion in General Fund appropriations from operating budgets. By repealing Arveschoug-Bird, the state will stand a better chance of recovering these appropriation losses.

Finding 3. The new TABOR revenue limit established by Referendum C will not limit appropriations during the study period. We project the state will be able to retain all projected revenues under the new cap through the study period and that extending the Ref C timeout will not result in additional revenues through fiscal year 2012-13.

Our study finds that through fiscal year 2012-13, the state will retain all of the revenues it collects under the new excess state revenue cap imposed by Ref C when the TABOR timeout ends in fiscal year

A look back: *Looking Forward* findings from 2007

Finding 1: Colorado’s schools, colleges and universities, health care safety net, human service programs, prisons, transportation and building maintenance depend on General Fund revenues for much of their funding.

Finding 2: General Fund appropriations will need to grow by a compound average annual rate of 6.3 percent to maintain 2007 levels of service through 2013.

Finding 3: The 6 percent Arveschoug-Bird General Fund growth formula could force some cuts in the projected appropriations needed to maintain 2007 levels of service through the six-year study period. It will certainly not allow any further increases in services.

Finding 4: Assuming continued economic growth, state General Fund revenues are projected to grow by an average annual compound rate of 5.2 percent through 2013.

Finding 5: Projected revenues will not be sufficient to maintain the state’s buildings, roads and bridges in their current condition, even with the increased dependence of General Fund revenues.

Finding 6: The new state revenue limit imposed by Referendum C, which takes effect in fiscal year 2010-11, is not likely to limit spending during the study period.

Finding 7: Projected revenues will not be sufficient to accommodate new or expanded services.

2010. However, historically Colorado's economy has grown faster than population growth and the rate of inflation, so we expect that there will again be TABOR rebates at some point in the future.

Finding 4. The limiting factor for General Fund appropriations during the study period will be the level of revenues generated by the state's existing tax structure. These are projected to comprise a smaller portion of the state's overall economy than the average over the past 28 years. This will make it difficult to keep pace with the needs of a growing state to build and maintain its roads, bridges and transit systems, adequately fund its colleges and universities, and ensure its K-12 education has sufficient resources to ensure a well-educated workforce.

Over the past two-and-a-half decades, state General Fund spending has equaled, on average, about 4.2 percent of Colorado's economy as measured by total state personal income. Our projections show that in fiscal year 2008-09 through fiscal year 2011-12, General Fund spending will fall to new lows against personal income, averaging only 3.3 percent over this four-year period. At this rate, revenues simply will not be able to keep pace with the needs of the state and its people.

Examining recession's effects

Our findings in this new analysis reflect the heavy toll the recession has taken on Colorado and the state budget. According to the Legislative Council's June 2009 revenue forecast, General Fund revenues declined by \$1.1 billion from fiscal year 2007-08 to fiscal year 2008-09.

To balance the 2008-09 budget, lawmakers and the governor cut more than \$200 million in operating appropriations and transferred \$567 million in cash funds and reserves to the General Fund, including a one-day transfer of \$249 million. They also tapped more than \$241 million in federal stimulus funds,

including a reduced state match for Medicaid, and raised \$12.5 million by cutting fees to vendors who collect state sales taxes.⁴

The economy is still weak, and projections call for little or no growth in state revenues for the coming year. Colorado faces a \$384 million shortfall for the fiscal year that began on July 1, 2009. To balance this year's budget, state policymakers will likely have to make further budget cuts, transfer more cash funds to General Fund programs and close more tax credits.

Our analysis shows that not only will the state lack revenues to maintain 2007 service levels this year, but current projections show there will not be enough revenue to reach these levels in any year through fiscal year 2012-13.

Colorado state government is less able to respond to recessions than most other states due to its restrictive revenue and expenditure provisions. While nearly all states are now cutting budgets, some are also looking to raise revenues to cushion the blow of budget cuts in key programs. In Colorado, TABOR severely restricts the state's ability to raise revenues, and to raise them in a timely manner, which may be necessary to serve the growing number of individuals and families accessing state services as jobs and incomes decline.

It is important to understand that some programs are designed to expand when the economy contracts. The demand for health care and other safety-net programs increases as people lose their jobs, and along with them, their health care benefits and ability to pay for necessities such as food and housing. The demand for higher education, human services and corrections also tends to rise during economic downturns. These types of programs are referred to as "countercyclical" because as the economic cycle turns down, demand for these programs rises. Funding for these programs would need to increase to meet the rising level of need. But given Colorado's budget circumstances, funding for these programs may fail to keep pace with demand or face outright cuts during the recession.

Comparing projections, 2007 and 2009

The challenging economic climate in the past year and a half has made a significant difference in our estimates for both appropriations and revenues.

General Fund revenues

When we released *Looking Forward* in December 2007, we used the Legislative Council staff's September 2007 projections for state revenues through fiscal year 2011-12 and, based on these

trends, estimated revenues for fiscal year 2012-13. Although the Legislative Council economists anticipated a slowing economy, they did not build a recession into their estimates.

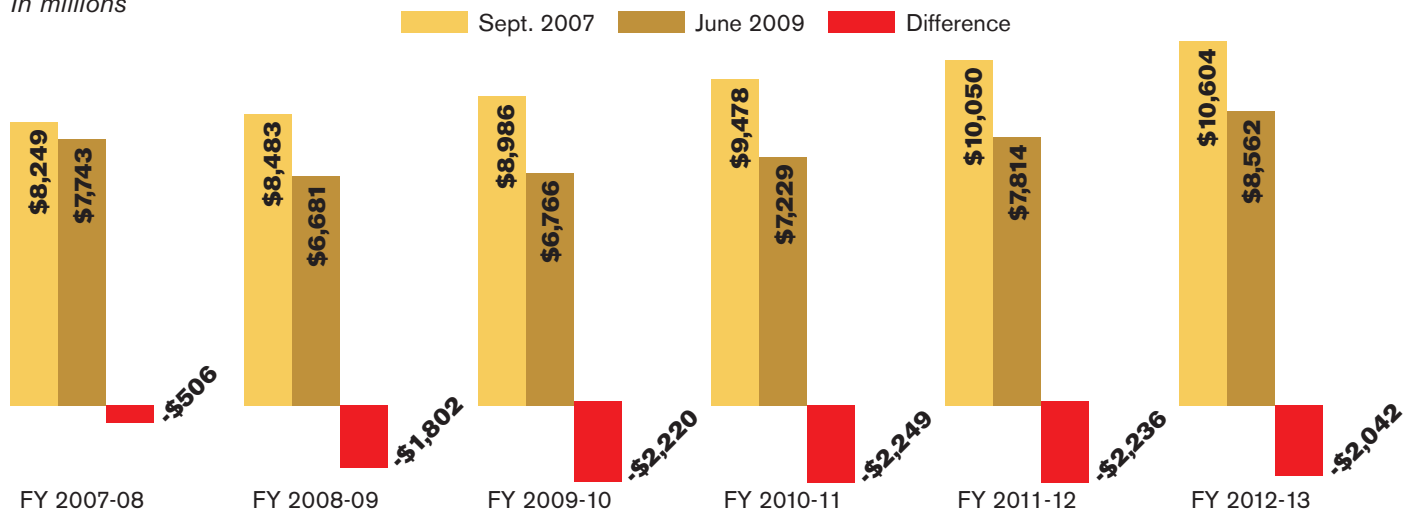
This report uses the Legislative Council staff's June 2009 projections for state revenues through fiscal year 2011-12. Again, we used the trends in these forecasts to estimate revenues for fiscal year 2012-13.

Based on this analysis, we project a dramatic

Figure 1

Differences in projected General Fund revenues, September 2007 and June 2009

In millions



decline in General Fund revenues available for appropriations over the study period. We project that Colorado will have, on average, \$1.8 billion less per year in General Fund revenues than we projected in 2007 (Figure 1).

Revenues are projected to drop by 13.7 percent in fiscal year 2008-09 over fiscal year 2007-08 and will grow by only 1.27 percent in fiscal year 2009-10. Beginning in fiscal year 2010-11, General Funds are anticipated to grow on average 8.2 percent through fiscal year 2012-13.

As the economy has weakened, projected revenues for fiscal years 2008-09 and 2009-10 have come in lower with each quarterly revenue estimate, beginning in September 2008. Although many economists think the Colorado economy has bottomed out and economic growth should begin to rebound in fiscal year 2009-10, it is possible that revenues could come in lower than currently projected.

Estimated appropriations to maintain 2007 levels of service

Lower General Fund revenue means the legislature has less money for General Fund appropriations, and yet the demand for some government services increases during recessions.

For example, the number of people who return to college for additional training often goes up during economic downturns. Community college enrollment increased by 10 percent in the spring of 2009 over the spring of 2008 and is 25 percent higher this summer than last according to the Colorado Community College System.⁵ Community college administrators say this is consistent with economic downturns in the 1990s and early 2000s.⁶

The demand for services such as Medicaid and public assistance also rises as people lose their jobs and their health care coverage. Economic factors also influence crime rates, which could result in increased prison populations. In projecting prison populations, which drive the costs of corrections, the Legislative Council staff considers growth rates of earnings and employment. They find that several years of poor economic conditions results in increased prison admissions. However, their estimates for adult prison populations were lower in December 2008 than those issued in December 2007.⁷

The economic slowdown also affects inflation, which is an important factor in determining the costs of providing government services. This is particularly true in estimating appropriations for K-12 education and higher education.

Amendment 23 of the Colorado Constitution requires that appropriations to K-12 education increase annually at least by the growth in the number of students, the rate of inflation and, through fiscal year 2010-11, an additional 1 percent over inflation. Therefore, changes in the rate of inflation directly affect future appropriations for K-12 education.

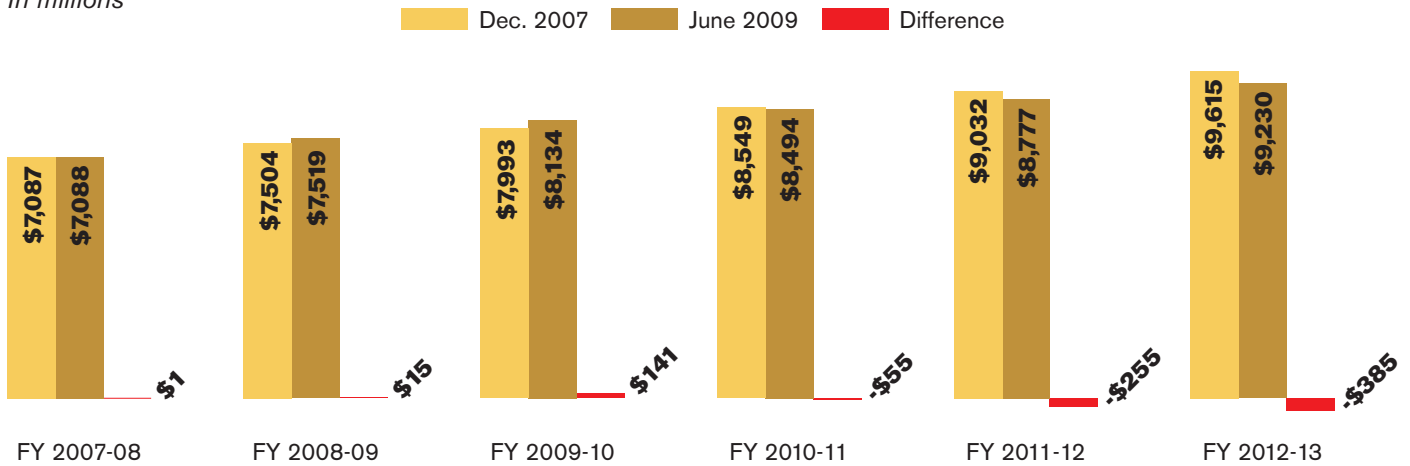
Appropriations to higher education to pay for the College Opportunity Fund program, student financial aid and grants for local district colleges historically have been based on the number of students enrolled and the rate of inflation. However, because there is no requirement that the state fund higher education, these appropriations can be cut to provide funds for budget areas such as K-12 education, Medicaid and corrections.

In their June 2009 forecast, the Legislative Council's economists projected lower rates of inflation

Figure 2

Differences in estimated appropriations needed to maintain 2007 levels of service, December 2007 and June 2009

In millions



for most years than they did in September 2007. In June, the council’s economists estimated the average inflation rate would equal 1.5 percent for 2009 through 2011, compared to the 3.3 percent average they projected in September 2007. We used the lower inflation estimates in projecting future appropriations for K-12 and higher education.

We estimate that appropriations needed to maintain 2007 levels of service would be \$385 million lower in fiscal year 2012-13 than we projected in December 2007 (Figure 2). Our updated projections show that appropriations will be \$141 million higher than our 2007 estimate for fiscal year 2009-10. However, our estimated appropriations will be lower than our original estimate by \$695 million for fiscal years 2010-11 through 2012-13.

What drives our lower estimates?

Our lower estimates for the 2009 update are caused largely by changes in projected funding for K-12 education and corrections. The lower inflation rates projected in June 2009 result in reduced estimates for K-12 appropriations. Corrections spending is closely related to the adult prison population, and lower estimated prison populations result in lower estimated appropriations.

Other estimated appropriations are flat to slightly lower in July 2009 than December 2007. For example, higher education appropriations, which are also affected by lower inflation rates, remained about the same as we projected in December 2007.

Estimated appropriations for health care and human services are largely based on historic growth rates. Our estimated appropriations for health care declined slightly between December 2007 and July 2009 because the historic growth rates were reduced

as more recent appropriations were included in our analysis.

Effects of the Arveschoug-Bird General Fund appropriations formula

A key finding of our 2007 *Looking Forward* report was that “the 6 percent Arveschoug-Bird General Fund growth formula could force some cuts in the projected appropriations needed to maintain 2007 levels of service through the six-year study period. It will certainly not allow any further increase in services.”⁸

The current downturn and the resulting drop in revenues would have demonstrated how problematic this formula was. However, the Legislature passed Senate Bill 228, which repealed the Arveschoug-Bird limit, in April 2009. If it had not, this limit would have locked in cuts made to deal with the current recession into future appropriations.

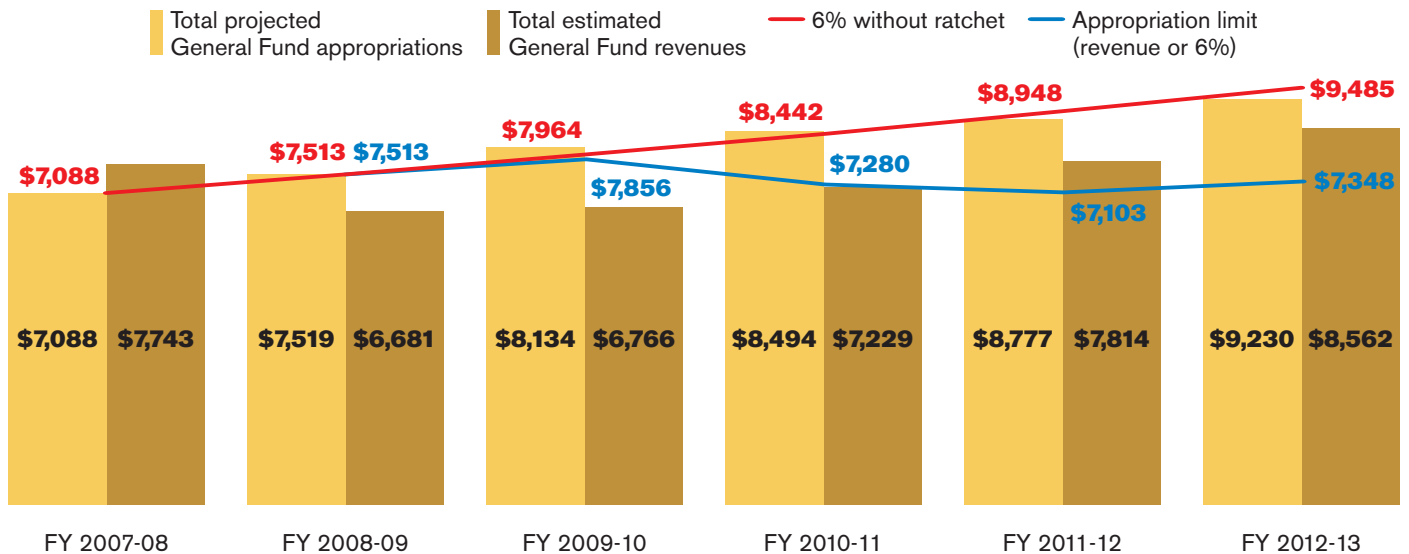
General Fund revenues in fiscal year 2008-09 are projected to drop by \$1 billion over the total received in fiscal year 2007-08. The actual decrease in total General Fund appropriations between the fiscal years totals \$186 million because the Legislature transferred cash funds and federal stimulus funds to the General Fund to help make up for the loss of revenues. General Fund spending is projected to be further limited by declining revenues in fiscal year 2009-10.⁹

Because Arveschoug-Bird’s 6 percent limit on General Fund operating spending was calculated based on the previous year’s General Fund appropriations, future appropriations levels would have been ratcheted down when the drop in revenues

Figure 3

Projected General Fund revenues, Fiscal Year 2007 level of services appropriations and Arveschoug-Bird appropriation limit

In millions



forced the legislature to cut General Fund spending. This ratchet would have limited the amount the legislature could spend on operating expenses by \$1.2 billion in fiscal year 2012-13.

Few dispute the need to make cuts in bad economic times to bring spending in balance with reduced revenues. However, the Arveschoug-Bird General Fund appropriations formula would have locked in this level of recessionary spending well into the future (Figure 3). In fact, the allowable General Fund operating appropriations were approximately \$1 billion lower in fiscal year 2008-09 because Arveschoug-Bird locked in the cuts made during the 2001-03 recession.

Effect of the federal economic stimulus package

Amid growing concern that the U.S. economy would continue its downward spiral without significant action by the federal government, Congress passed and President Barack Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA) in February. This economic stimulus package will inject approximately \$787 billion into the U.S. economy over the next two years through a mix of direct federal spending and tax cuts. A significant share of the direct spending is targeted toward shoring up ailing state budgets. Colorado's share of federal aid from the bill is estimated to total more than \$2.8 billion.¹⁰

The Legislature and Gov. Bill Ritter used the economic stimulus funds received by Colorado to help offset program cuts in the budgets for fiscal years

2008-09 and 2009-10. Stimulus funds were used to make up for cuts of \$150 million in higher education for each fiscal year. Another \$152 million was credited to the State Education Fund for fiscal year 2009-10 and \$25 million in discretionary ARRA funds was transferred to the General Fund in each fiscal year to offset cuts in K-12 education. Reductions in the federal matching requirements under Medicaid as part of the ARRA will save the state \$542 million over the two fiscal years, and another \$55 million was transferred to the General Fund to cover health care costs for both fiscal years. Roughly \$500 million is available for infrastructure projects for building and maintaining highways, bridges and transit.¹¹

While the economic stimulus package will help the state avoid severe program cuts over the next two years, the vast majority of the federal aid will run out at the end of fiscal year 2009-10. At that time, Colorado will have to either use state funds to maintain the level of appropriations or make cuts in programs. Based on revenue projections released in June 2009, state policymakers will face difficult budget choices in future fiscal years even as the economy begins to recover.

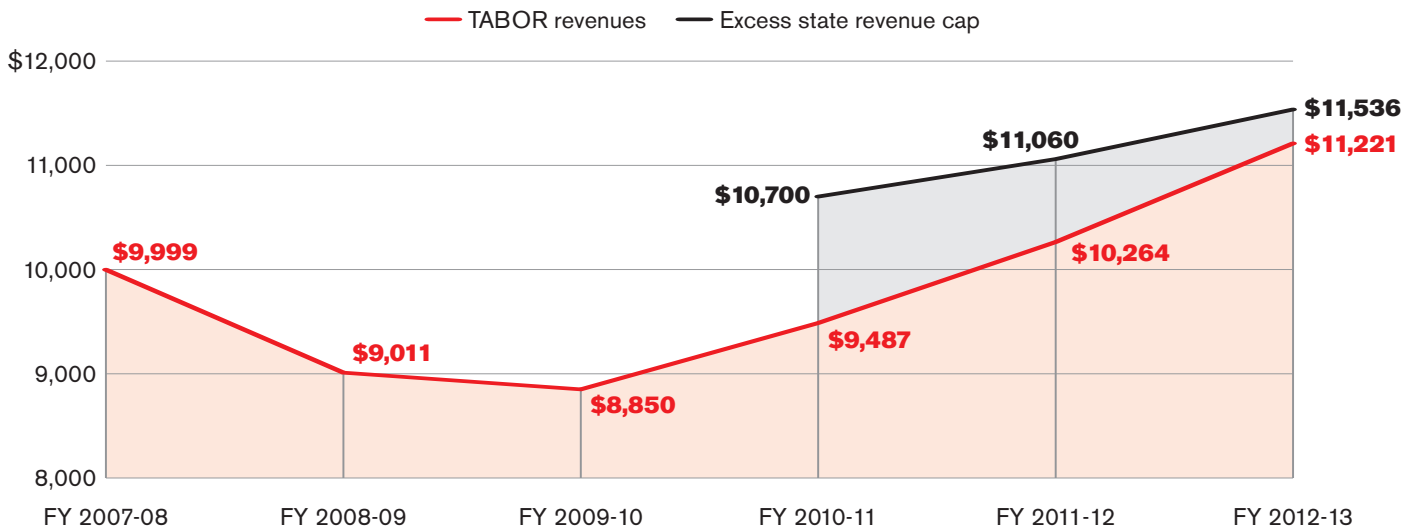
Effects of the TABOR revenue limit

As we described in our 2007 *Looking Forward* report, Referendum C imposes a new state revenue limit beginning in fiscal year 2010-11 called the "excess state revenue cap." This new revenue cap will be set at the highest amount of revenues received during the TABOR timeout (fiscal years 2005 through

Figure 4

Projected TABOR revenues and the new excess state revenues cap based on June 2009 revenue projections

In millions



2010) and will increase each year by the cumulative growth in population plus the cumulative growth in consumer price inflation. The new cap eliminates TABOR’s ratchet effect, which caused the TABOR revenue cap to shrink when revenues failed to equal or exceed population growth plus inflation.

The Legislative Council’s staff projected TABOR revenues from its June 2009 estimate are lower than its September 2007 projections. It also adjusted its projections for population growth and consumer price inflation.

Figure 4 shows the projected revenues covered by the TABOR limit through fiscal year 2012-13 and the estimated new excess state revenues cap. Based on these projections, there will be no TABOR rebates during the six-year study period, nor will the new excess state revenues cap under TABOR constrain the legislature’s ability to maintain 2007 levels of service. However, over the long term, Colorado’s economy is expected to grow faster than the rate of population growth and consumer price inflation, so we would anticipate TABOR rebates recurring at some future point.

Adequacy of state General Fund revenues

Projected General Fund revenues will not be sufficient to cover the appropriations needed to maintain 2007 levels of service in fiscal year 2008-09 through fiscal year 2012-13. Revenues are projected to fall \$668 million short in fiscal year 2012-13.

This demonstrates that while the Arveschoug-Bird

limit would have forced the legislature to cut appropriations to General Fund operating programs unnecessarily, we are not projected to have enough state revenues to maintain 2007 levels of service, let alone expand them.

These estimated appropriations do not include additional funding for proposals to improve health care coverage or take additional actions to reduce dropout rates and close the achievement gap.¹² They also do not include any General Fund revenues going for funding highway or capital construction projects – both areas with demonstrated funding needs.

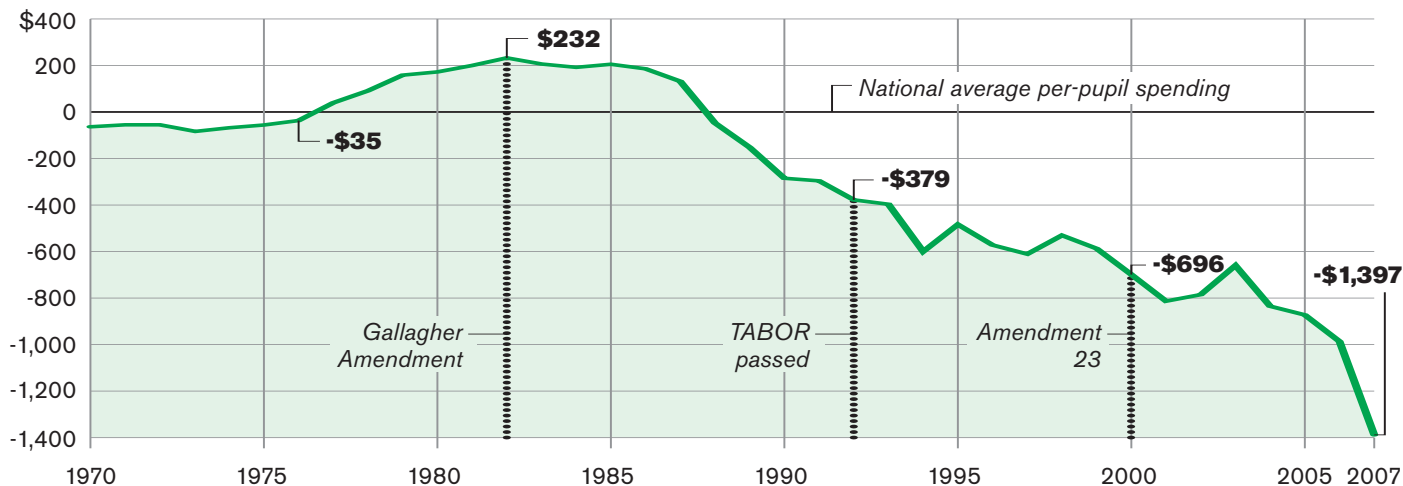
In many budget areas, the estimated appropriations to meet 2007 service levels do not adequately account for the existing need for services. For example, to limit overall General Fund operating appropriations to 6 percent, the legislature took actions in the health care and human services budgets over the years to limit costs, such as capping the number of people who can receive Medicaid and limiting reimbursement rates for hospitals and doctors.

In higher education, the state has increasingly relied on tuition to make up a larger portion of funding for colleges and universities. In 1982, according to the State Higher Education Executive Officers, state appropriations accounted for 62 percent of the revenue per full-time college student in Colorado, and 38 percent came from tuition. By 2007, the percentages were almost reversed, with 42 percent coming from state appropriations and 58 percent from tuition.¹³

To balance the budget for fiscal years 2008-09 and

Figure 5

Amount of Colorado K-12 spending per pupil above or below the national average



Source: U.S. Department of Education, National Center for Education Statistics, *Revenues and Expenditures for Public Elementary and Secondary Education*, various years

2009-10, the legislature cut appropriations for higher education back to the levels it received in fiscal year 2005-06. This worked out to about \$150 million below what was appropriated for fiscal year 2008-09. Federal stimulus funds were used to make up for the \$150 million in cuts. The Legislature also granted colleges and universities the authority to raise tuition rates by as much as 9 percent to cover additional costs for this year. A review of tuition rates for the 2009-10 school year finds that most of Colorado’s four-year and community colleges hiked tuitions by 9 percent.¹⁴

Even with Amendment 23’s minimum requirements for state spending for K-12 education, Colorado continues to fall further below the national average in state spending per student (Figure 5).

The end result is there is likely greater need for services than what is shown in our estimated appropriations needed to maintain 2007 levels of service.

The overall size of state government as compared to the state’s economy has been shrinking in recent years. When we compare state General Fund revenues and expenditures to Colorado’s overall economy as measured by total statewide personal income, we find that in 2008, General Fund revenues equaled 3.9 percent of personal income. This is close to the 28-year low of 3.6 percent that occurred during the 2001-03 economic downturn and 7 percent below the 4.2 percent average found from 1981 through 2006.

Our projections suggest that General Fund revenues in 2009, 2010 and 2011 will represent new lows as a percent of statewide personal income, totaling 3.2, 3.4 and 3.5 percent, respectively (Figure 6). Those rates are more than 21 percent below the 4.2 percent average.

A major factor that is driving the decline in General Fund revenues as a portion of total state personal income is a series of tax cuts totaling as much as \$800 million that were enacted at the end of the 1990s.

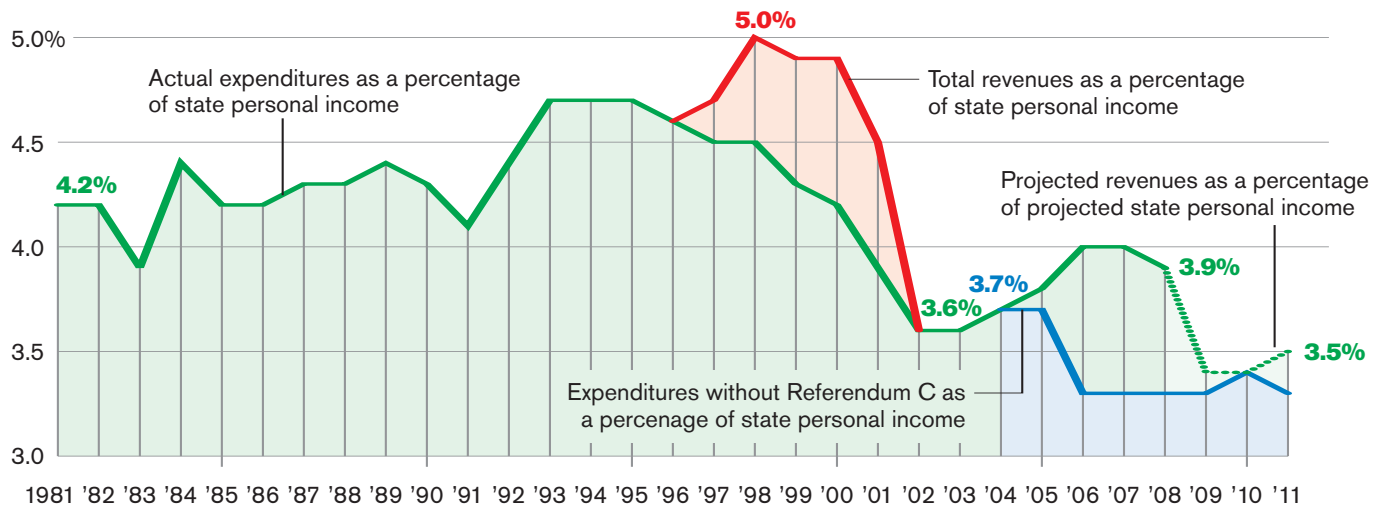
Conclusions

As Colorado remains mired in recession, shortfalls in revenues will require deep, ongoing cuts in General Fund programs such as K-12 education, higher education, health care, human services and corrections, making it almost impossible to maintain funding for 2007 levels of service.

Our updated projections show that state General Fund revenues will average \$1.8 billion per year less than estimated in our original six-year study period. In the current fiscal year through 2012-13, the average is almost \$2.2 billion less than estimated. Projected revenues will fall \$668 million below what is necessary to maintain 2007 service levels in fiscal year 2012-13.

While the federal economic stimulus package will cushion the fiscal blow over the next two years, its effect will be only temporary, and state General Fund revenues are not expected to return to pre-recession levels until fiscal year 2011-12. This will make it even less likely that the state will be able to maintain 2007 levels of service than we projected in our 2007 report. Further, the state will face immense challenges in moving forward with initiatives for expanding health care for children, reducing the number of high school dropouts, closing the achievement gap between low-income and wealthier students, increasing the number of students enrolling in post-secondary education programs or increasing funding for transportation.

Figure 6

General Fund revenues and expenditures as a percent of total statewide personal income

Our current estimates show that it is a lack of revenue that is the primary factor constraining state services.

In April 2009, the legislature passed Senate Bill 228, which repealed the Arveschoug-Bird General Fund spending formula. This positive action provides greater budget flexibility to deal with economic downturns, creates a rainy day fund that will help cushion the state from severe budget cuts and eliminates a ratchet that would have prevented the legislature from restoring \$1.2 billion in cuts once the economy began to rebound.

In our December 2007 report we identified the Arveschoug-Bird formula as a major impediment to our ability to maintain funding at 2007 levels, but we now see the lack of revenue as the major impediment.

As the challenges facing Colorado multiply, state government is shrinking relative to the economy. We believe that public structures such as our community colleges and state universities, local schools and health care services for low-income Coloradans

strengthen our state, provide opportunity for our people and undergrid our economy. However, to be effective, these public systems need adequate funding.

We project that General Fund revenues, as a percent of total state personal income, will reach new lows, averaging just 3.3 percent of personal income in fiscal year 2008-09 through fiscal year 2011-12. This is even less than the low of 3.6 percent reached during the 2001-03 recession. And even though we do not project any TABOR rebates during the time period examined in our study, we do anticipate rebates at some point in the future, further hampering the state's ability to recover from the current recession.

Clearly, Colorado's fiscal condition is dire. Even as we aspire to become an innovative, 21st century state, our financial resources will not allow us to maintain our pre-recession levels of services and infrastructure. As we noted in our original *Looking Forward* report, it is clear that we are headed down a path that will leave us short in a number of areas. The question is – is this where we want to go?

End notes

¹ In addition to repealing the 6 percent General Fund appropriations formula, **SB 228** also creates a rainy day fund equal to 6.5 percent of General Fund appropriations. If personal income grows by 5 percent in 2012, 2 percent of General Funds will be transferred annually to transportation for five years, beginning in fiscal year 2012-13, and 0.5 percent of General Funds will be transferred to capital construction in fiscal years 2012-13 and 2013-14, increasing to 1 percent of General Funds in fiscal years 2014-15 through 2016-17. General Fund appropriations will continue to be limited to 5 percent of Colorado personal income.

² For more information about our study methods see

Looking forward: Colorado's fiscal prospects after Ref C, The Bell Policy Center, Colorado Children's Campaign and Colorado Fiscal Policy Institute, 2007. Also see the *Looking Forward online appendices*.

³ The appropriations totals used were those reported in the *Joint Budget Committee's Fiscal Year 2008-09 Appropriations Report*, published in July 2008. The appropriations were not changed based on actions taken during the 2009 legislative session.

⁴ *Actions Taken to Balance FY 2008-09 and FY 2009-10 Budget (Revised)*, John Ziegler, Colorado Joint Budget Committee, June 1, 2009 and *Focus Colorado: Economic and Revenue Forecast, 2008-2012*, Colorado Legislative Council Staff, June 22, 2009.

⁵ *Recession education: Tuition and enrollment up across*

state, John Tomasic, *The Colorado Independent*, June 1, 2009. *Recession prompts parents to rethink college*, Chris Casey, *The Greeley Tribune*, May 30, 2009.

⁶ *Community college enrollment soars in bad economy*, Barry Bortnick, Education News Colorado, February 11, 2009.

⁷ *Focus Colorado: Economic and revenue forecast, 2008-2012*, Colorado Legislative Council Staff, Dec. 19, 2008, p. 46, and *Focus Colorado: Economic and revenue forecast, 2007-2012*, Colorado Legislative Council Staff, December 2007, p.33.

⁸ *Looking Forward: Colorado's fiscal prospects after Ref C*, December 2007, p.9

⁹ *Focus Colorado: Economic and revenue forecast, 2008-2012*, Colorado Legislative Council Staff, June 22, 2009.

¹⁰ *American Recovery and Reinvestment Act*, Colorado Fiscal Policy Institute, February 17, 2009.

¹¹ *Actions Taken to Balance FY 2008-09 and FY 2009-10 Budget (Revised)*, and *Focus Colorado*, June 22, 2009.

¹² The legislature enacted the Health Care Affordability Act (HB 1293) during the 2009 legislative session; it will

impose a hospital fee to generate revenue to expand coverage to 100,000 uninsured Coloradans. However, the revenues to pay for the expansion are a combination of cash funds and federal funds, not General Funds, which are the focus of this analysis. In recent years, Colorado has relied on cash funds such as tobacco taxes under Amendment 35 and the tobacco settlement revenues to expand health care coverage.

¹³ State higher education executive officers, *State Higher Education Finance (SHEF) Supplemental Data Tables and Figures*, 2008.

¹⁴ *FY 2009-10 Tuition and Fees – Re-Examination*, Cliff Richardson, Vice President for Finance and Administration, State Board for Community College and Occupational Education, Staff Memorandum, May 13, 2009; *Metro State boosts tuition to \$1,425 a semester*, *Denver Business Journal*, June 4, 2009; *Cuts force Fort Lewis College to increase tuition*, *The Denver Post*, June 07, 2009; *UNC Trustees Approve 2009-10 Budget*, UNC News Release, June 12, 2009; *CSU hikes resident undergrads' tuition 9%*, Tom McGhee, *The Denver Post*, June 25, 2009; *Western State College of Colorado Board of Trustees, Meeting Minutes*, May 15, 2009.