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CSU study finds Colorado continues to face significant long-term budget challenges

Lingering effects of recession eased pressure in some budget areas

Past legislative actions, however, create unforeseen constitutional conflicts

DENVER – December 3, 2013 – The Colorado Futures Center at Colorado State University today unveiled a comprehensive study looking at the long-term fiscal health of state government. The 2013 Colorado Sustainability Study examines the factors shaping the state’s general fund – often referred to as government’s main checking account – for the decades ahead. It also builds and expands upon the widely cited and award-winning study completed by the authors in 2011.

The 2013 Colorado Sustainability Study’s key findings are that the recent recession eased pressure on some drivers of government spending and improved government’s revenue outlook, which would normally be good news for citizens, lawmakers and the business community. However, a hospital provider fee created in 2009 to pay for the expansion of Medicaid has unexpectedly exacerbated conflicts with Colorado’s constitutional revenue and spending limits. This has set up a scenario where significant long-term budget gaps remain and will likely force difficult cuts at the same time that citizens start getting constitutionally mandated tax refunds.

“Colorado has one of the most complex state budgets in the nation, not by virtue of the dollar figures – other states are much bigger – but due to the many competing financial caps and spending requirements that have been added to the state constitution over the years,” said Charles Brown, director of the Colorado Futures Center at CSU. “For state lawmakers, meeting the long-term needs of Colorado citizens under this web of incongruent constitutional rules is a delicate balance that can easily be upset by outside factors or the unanticipated impacts of their own actions. The 2013 Colorado Sustainability Study demonstrates this tension very well, with an extended economic forecast that contains a better-than-expected outlook clouded by economic challenges of our own Legislature’s making.”

In the previous version of the study, Brown and Lead Economist Phyllis Resnick predicted state government general fund expenditures would exceed revenues by \$3.5 billion in fiscal year 2024-25 because the growth rates of Medicaid and K-12 education spending would exceed the growth rates of sales and income tax collections. In the 2013 version of the study, the Colorado Futures Center at CSU predicts that general fund expenditures will exceed revenues in fiscal year 2014-15, TABOR refunds will trigger in fiscal year 2016-17, and the gap will grow to \$1.5 billion in fiscal year 2024-25 and climb to a \$2.9 billion-a-year by fiscal year 2029-30. Colorado’s fiscal year begins on July 1.

“It’s sort of a perverse irony that a recession, which had so many negative impacts for Colorado families and businesses, actually improved the long-term fiscal outlook for state government,” Resnick said. “Sustained low levels of inflation and delays in the formation of new households helped alleviate cost pressures associated with both K-12 education and health care spending. When coupled with stronger-than-expected revenue growth, it set the stage for a much improved fiscal outlook than we saw several years ago.

“Unfortunately, the story doesn’t end there,” she continued. “Legislative efforts to create a mechanism to fund the expansion of the Medicaid system vis-à-vis a hospital provider fee have run afoul of constitutional spending and revenue limits set in the Taxpayer’s Bill of Rights. It creates a scenario where lawmakers will be forced to look at deep cuts to public safety, higher education, human services, the court system, and more at the same time the state will be required to deliver substantial tax refunds to citizens.”

The Colorado Futures Center at CSU found that there are solutions that can at least partially address the long-term funding gaps faced by state government. The state could look for ways to remove the hospital provider fee from the state’s revenue and spending caps, a step that would reverse a portion of the potential budget cuts but that would also likely erase refunds for taxpayers. Likewise, the Colorado Futures Center modeled reforms to the state’s sales tax system that would boost revenue but require a statewide vote.

“There aren’t any easy answers or silver bullets, and government cannot fix the challenge outlined by this study by simple across-the-board spending cuts or tax rate increases; it’s going to take a structural approach to a structural problem, blending thoughtful and creative solutions to really get at the root issues threatening Colorado’s long-term fiscal health,” Brown said.

For the 2013 Colorado Sustainability Study, the Colorado Futures Center at CSU created new economic modeling tools that allow the center's experts to quickly and accurately analyze how economic conditions or policies changes will impact the long-term outlook for the state's general fund.

"We've built the Colorado Sustainability Study so that it is a living economic model that can be used to help state leaders look at how changes to various inputs -- whether it's a new tax proposal or a demographic shift -- will impact the government's ability to serve citizens over the long haul," Brown said. "This study plays an important role in helping understand the dynamics that shape state government's fiscal future, and the Colorado Futures Center at CSU is committed to providing leaders with the research tools required to make deliberate and measured decisions that maintain and improve the quality of life of all Coloradans."

About the Colorado Futures Center

The Colorado Futures Center at Colorado State University provides vital research and analysis of public policies impacting Colorado's future and quality of life. The Center delivers independent, nonpartisan and academically grounded input on a broad range of issues related to the economic health of the state of Colorado.

The Colorado Futures Center fits within CSU's commitment to excellence, setting the standard for public research universities in teaching, research, service and extension for the benefit of the citizens of Colorado, the United States and the world. In support of that mission, the Colorado Futures Center produces research to help Colorado's citizens and leaders make decisions that strengthen the state's economy and quality of life.

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