Strategic Directions

A Look into the Fiscal Future

February 21, 2013
About the Forecasting Project

• Based on a 10-year state economic and revenue forecast built by the CU Boulder Leeds School of Business.

• Includes 10-year forecasts for state spending. K-12 education and Medicaid are the most critical state budget drivers.

• This forecasting project will be updated periodically to ensure the Regents and University community have a better idea of state funding prospects over time.
Project Goals

- Offer perspective regarding how higher education spending fits into the larger state budget picture over time.
- Provide a longer-term view of where state funding for higher education may be headed.
- Inform future discussions regarding CU’s funding options.
- Provide a framework to consider longer-term strategies to ensure adequate funding of campus strategic plans.
Project Next Steps

- Provide periodic forecast updates to reflect changes in state policy and the state economy.
- Better define funding gaps and options for addressing the gaps over time.
- Develop a cost-benefit analysis of various gap-closing options.
A Brief History of Time

• In FY 1990-91, 19% of the state budget went to higher education. By FY 2000-01, that share had fallen to 14%. In FY 2013-14, the share will likely be about 8%. CU’s share of the 8% will likely be about $150.2 million.

• The state budget “high point” for higher education was $706 million in FY 2008-09. The Governor’s request for FY 2013-14 is $543 million.

  • About 5.3% of the CU budget comes from the state of Colorado.

• Colorado ranks 48th in the nation for state funding per full-time student in higher education.
Assumptions

• Steady economic growth over the next decade.
  • No economic downturn over the next decade.
  • Significant risks are on the horizon, including: Federal budget balancing, the Lobato lawsuit and global economic uncertainty.

• Very modest growth in spending for most state departments, including higher education, reflecting inflation and population growth (about 4%).
  • Prior to the economic downturn, state spending often grew at 6% a year or more.

• No restoration of budget cuts for K-12, higher education or other state departments.

• Senate Bill 228 is triggered and directs General Fund to other needs.
Major Economic Findings

• Slow growth over time in Colorado’s working-age population.
  • This will affect the number of people working and state revenue growth.

• As people age they begin to spend more of their disposable income on services instead of goods. Colorado sales tax does not apply to services.
  • This results in modest state general fund growth over time.

• Economic forecast reflects uncertainty in Washington DC regarding the federal budget, revenue and spending.
Growth of State General Fund Slowing
Allocation of State General Fund

FY 2003-04 State General Fund

- K-12 Education: 44%
- Human Services: 11%
- Health: 22%
- Higher Education: 11%
- Corrections: 8%
- Other: 4%
Possible Allocation of State General Fund

**FY 2012-13 State General Fund**
- Health: 25%
- K-12 Education: 40%
- Human Services: 8%
- Higher Education: 8%
- Corrections: 9%
- Other: 10%

**FY 2022-23 State General Fund**
- Health: 32%
- K-12 Education: 35%
- Human Services: 10%
- Corrections: 8%
- Higher Education: 5%
- Other: 10%
K-12 Costs Larger in Near Term

- General Fund increases for K-12 are significant in the near term to keep the State Education Fund solvent. However, K-12 requires less General Fund growth in out years.
Medicaid Caseloads Increasing

- Medicaid caseloads increasing by 87% from 2013 and 2023.
- By 2023, nearly 60% of Medicaid caseloads will be children.

* Estimated  **Assumes Affordable Care Act Implementation
Medicaid General Fund Costs Increasing

- Medicaid costs increasing over 100% over next decade.

*Estimated* Medicaid Premiums  Mental Health

![Graph showing Medicaid costs increasing over the next decade.](image)
• The state budget picture worsens in 2018 when state revenues cannot support estimated state expenses.
Higher Education Funding at Risk

FY 2015 - FY 2023

- **Everything Else**
- **Higher Education**
- **General Fund for Programs**

**Shortfall: $300M**

**Shortfall: $400M**

**Shortfall: $450M**

**Shortfall: $400M**

**Shortfall: $600M**

**Shortfall: $800M**

Billions

$0.0, $2.0, $4.0, $6.0, $8.0, $10.0, $12.0, $14.0, $16.0
State Budget Future

Billions


Lobato
Restore K-12 Cut
Restore Higher Education Cut
Higher Education
K-12
Human Services
Other GF Departments
Medicaid
Corrections
GF Reserve
General Fund for Programs
Balancing the Shortfall

• Impossible to say how future policy makers will balance the budget.
• What we know:
  • K-12 can be cut by up to $500 million more.
    • It is unlikely cuts to K-12 will reach this level.
  • Higher Education is largest discretionary portion of state budget.
  • Even limited Medicaid cuts difficult due to federal requirements.
  • Human services cuts difficult due to growing need.
  • Corrections cuts would require ongoing declines in prison population.
  • Senate Bill 228 could be repealed.
  • Senior homestead exemptions could be permanently suspended.
  • Many remaining areas of the budget difficult to cut due to operational, statutory and constitutional requirements.
Conclusions

• Shortfalls could happen sooner… or later.
• It is likely the economy will have another downturn by 2023.
• Even a continually healthy economy is inadequate to pay for very modest state budget growth.
• Future budget increases for inflation and population growth enable maintenance of current service levels.
  • Restoring past budget cuts would likely require reductions in other areas.
• The state has very limited budget wiggle room to absorb a future downturn.
• Under ideal conditions, state funding for higher education is at significant risk in the near future.
  • Ideal conditions do not last.
Project Next Steps

• Provide periodic forecast updates to reflect changes in state policy and the state economy.

• Better define funding gaps and options for addressing the gaps over time.

• Develop a cost-benefit analysis of various gap-closing options.

• Use forecast to inform CU’s annual budget discussions and strategic planning.