



# 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 48<sup>th</sup> 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.

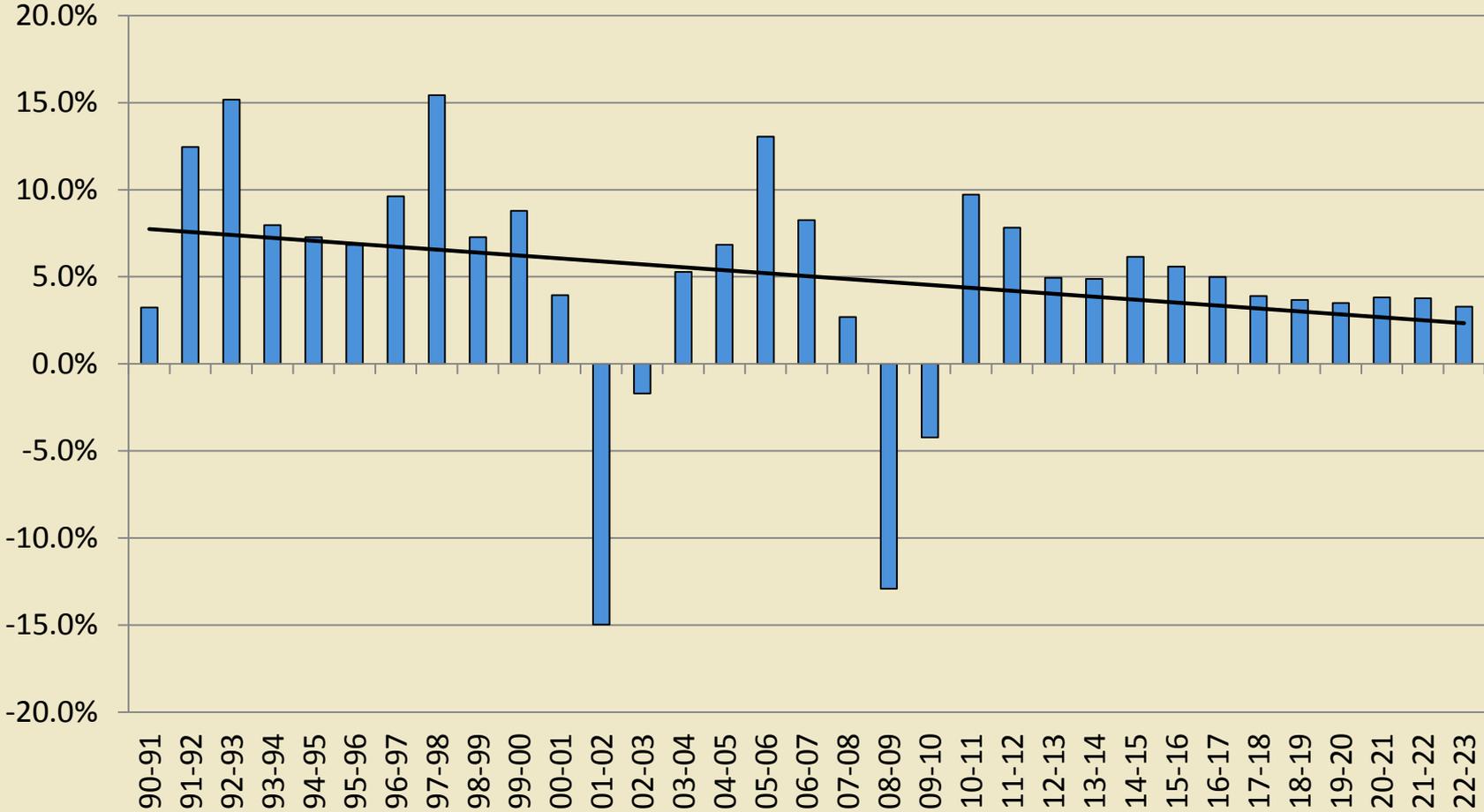


# Major Economic Findings

- 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.

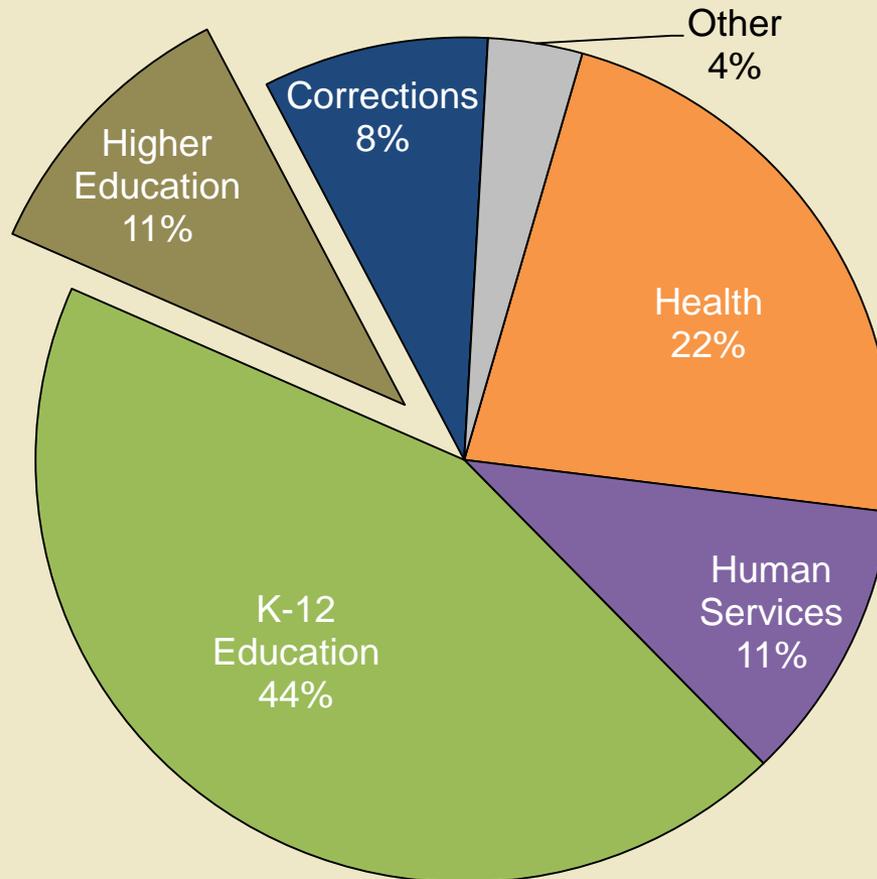


# Growth of State General Fund Slowing



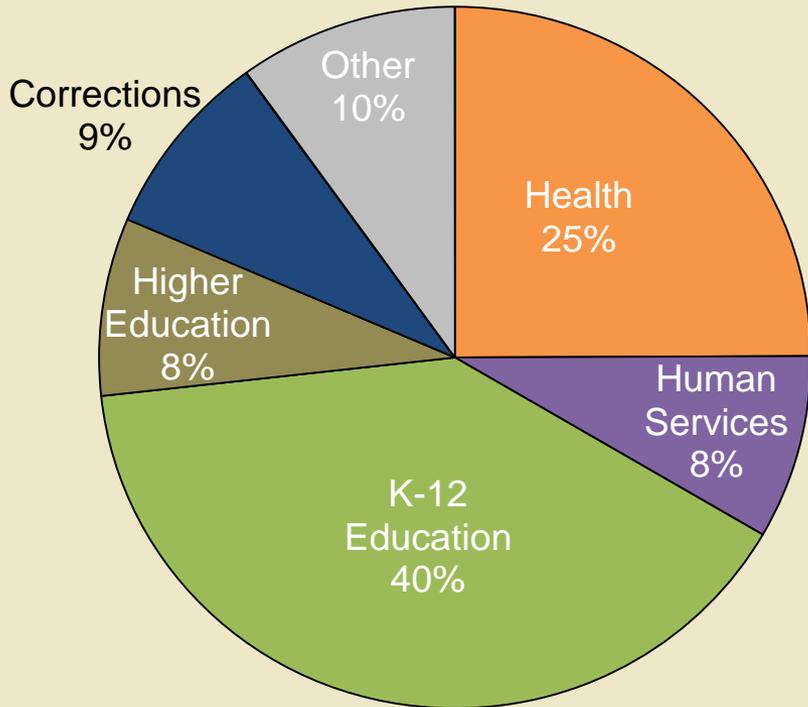
# Allocation of State General Fund

## FY 2003-04 State General Fund

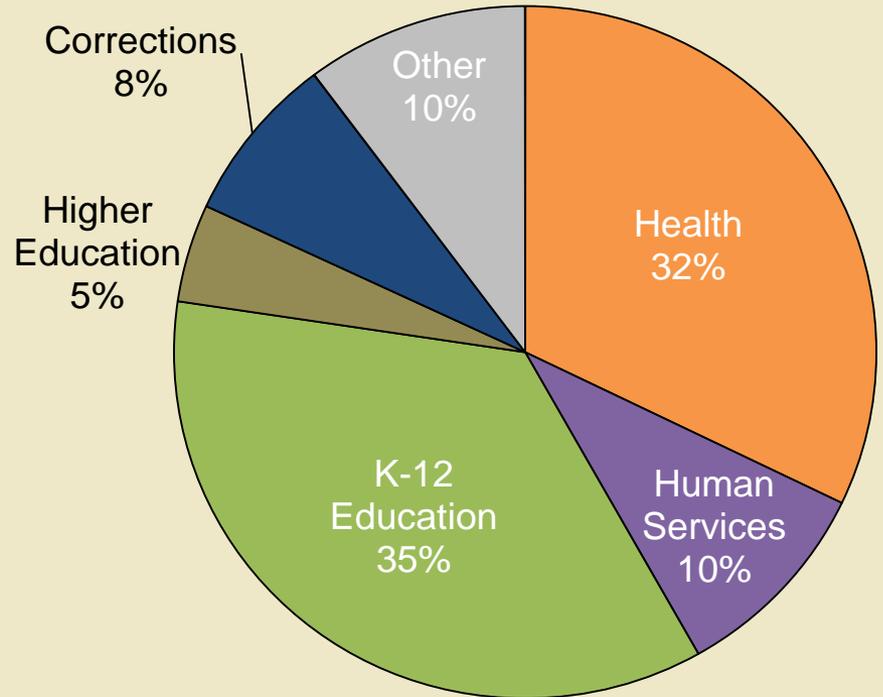


# Possible Allocation of State General Fund

## FY 2012-13 State General Fund



## FY 2022-23 State General Fund



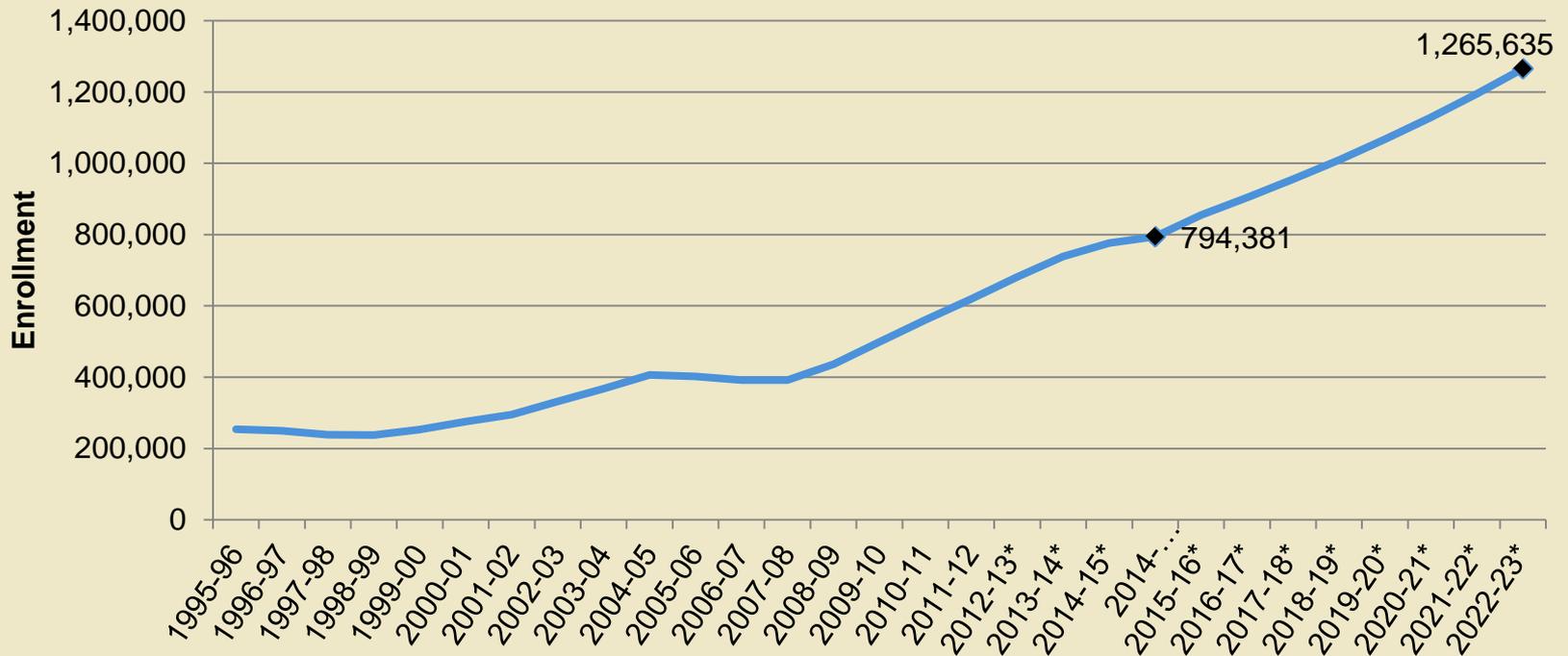
# K-12 Costs Larger in Near Term

- 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.



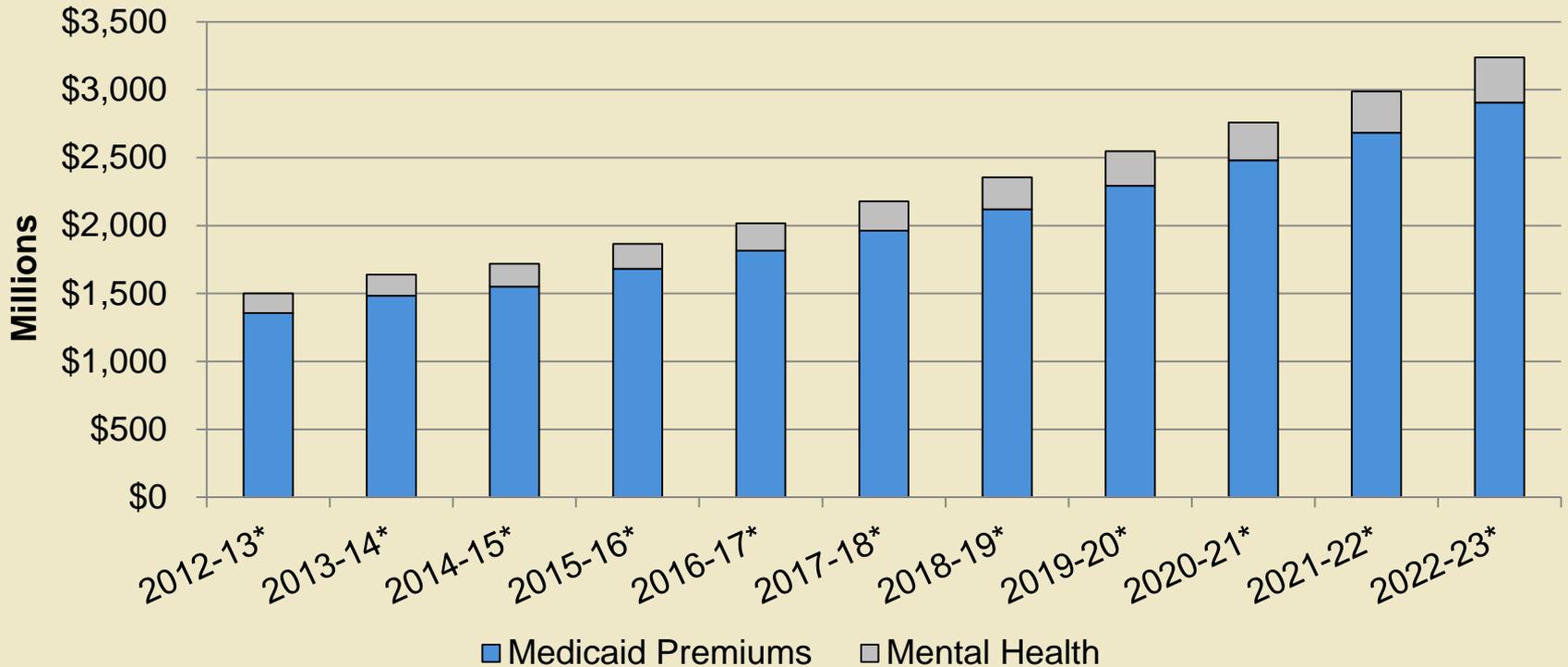
\* Estimated

\*\*Assumes Affordable Care Act Implementation



# Medicaid General Fund Costs Increasing

- Medicaid costs increasing over 100% over next decade.

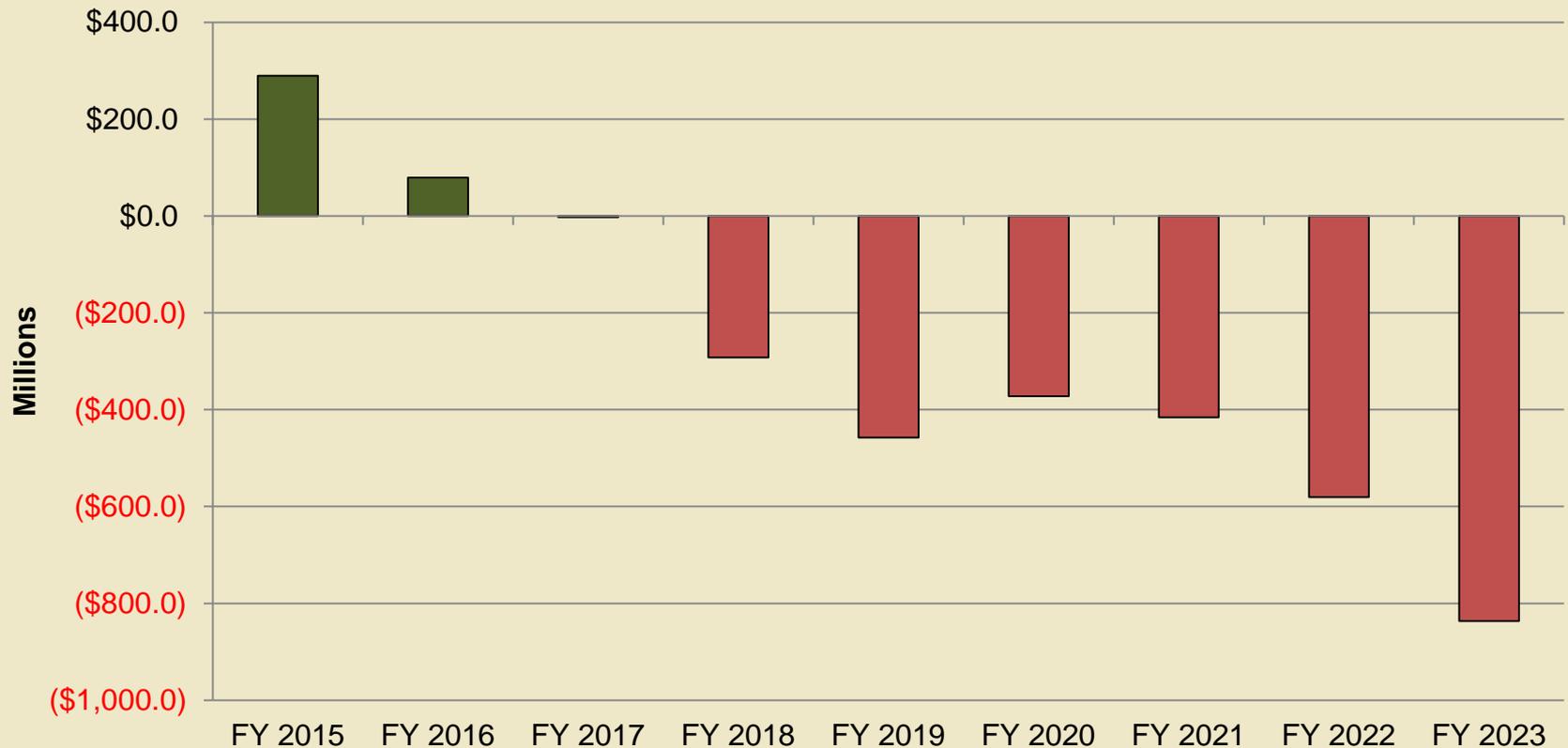


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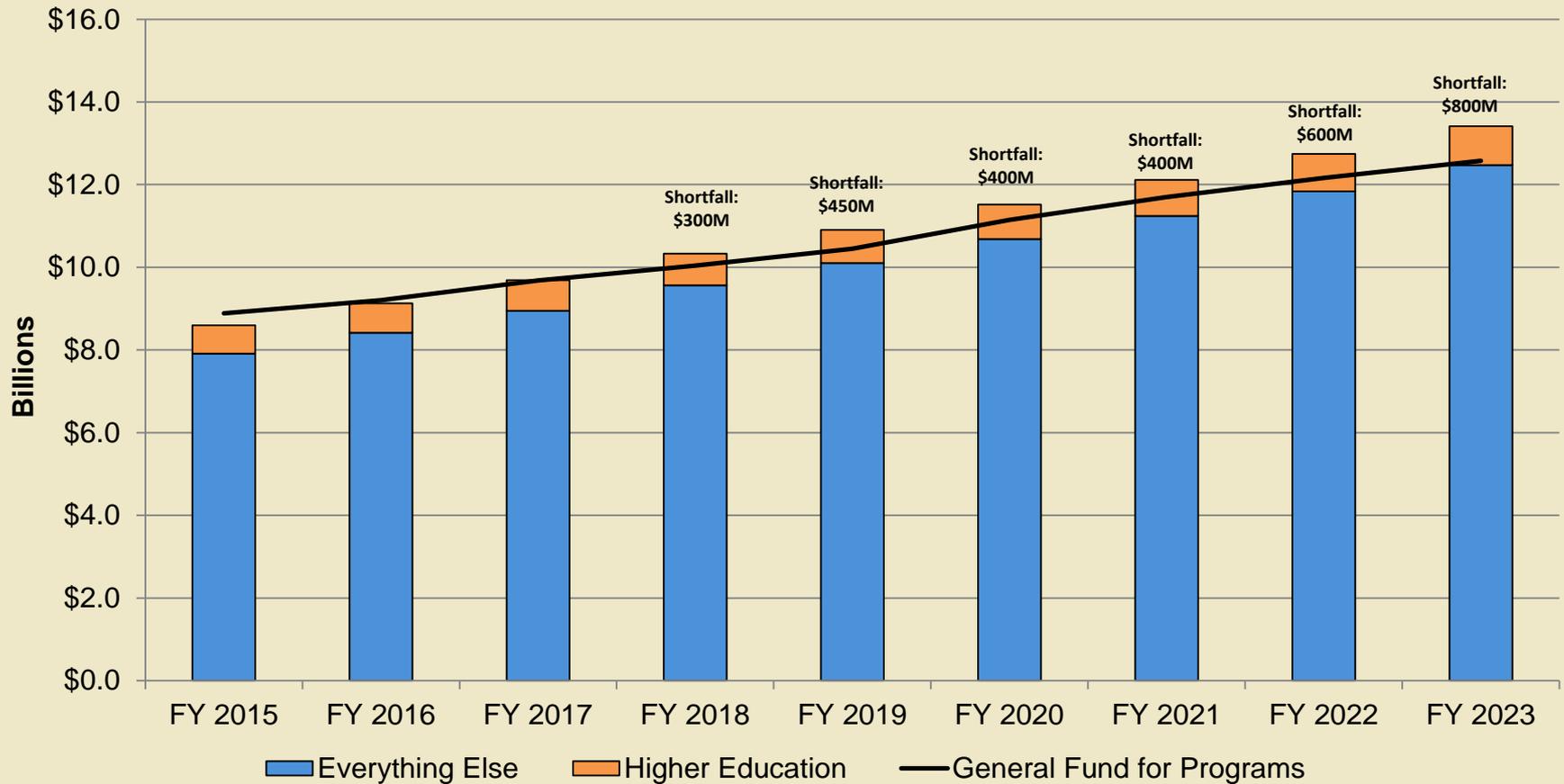


# Revenue vs. Expenses

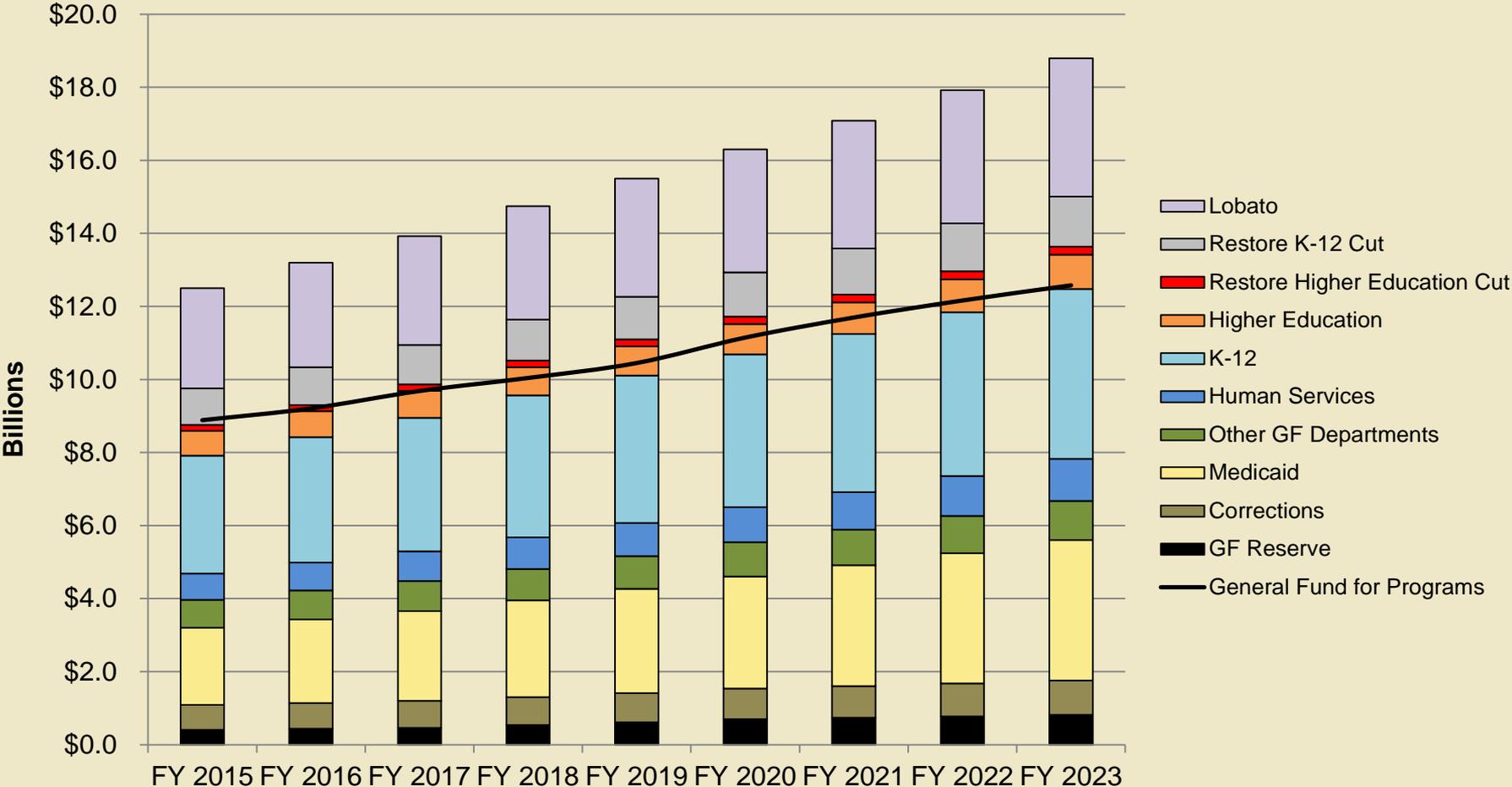
- The state budget picture worsens in 2018 when state revenues cannot support estimated state expenses.



# Higher Education Funding at Risk



# State Budget Future



# 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.

