

Education Budget Outlook

Natalie Mullis

Chief Economist, Legislative Council Staff

leg.colorado.gov/lcs

303-866-4778

Natalie.Mullis@state.co.us

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Colorado Association of School Boards

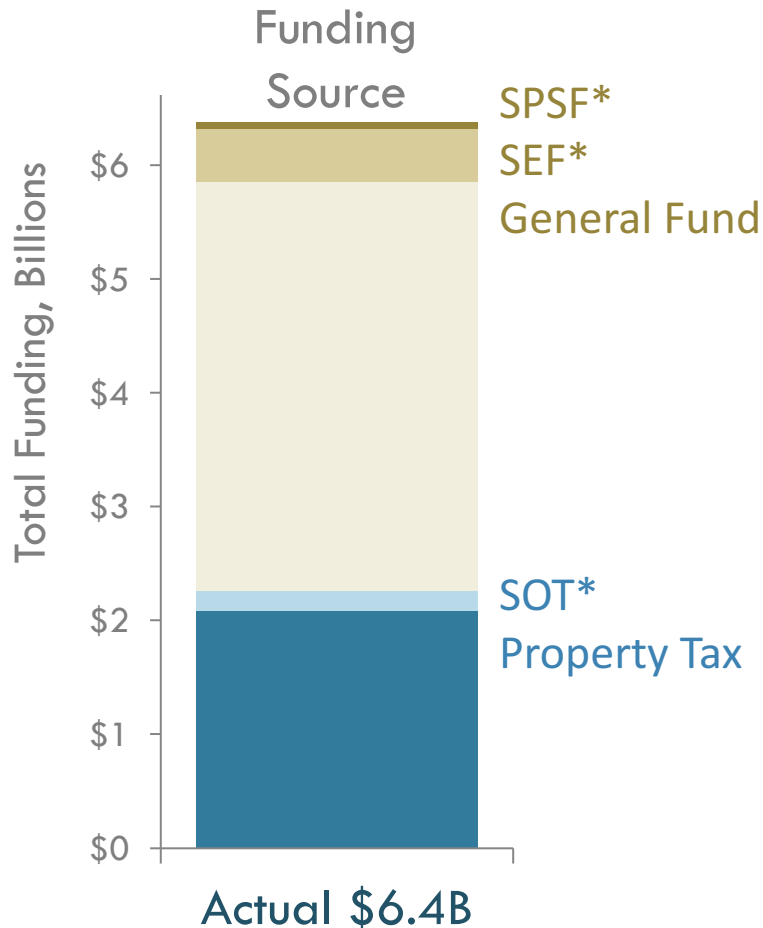


Outlook for the Education Budget

- Where does the money come from?
- Where are we?
- How did we get here?
- Where are we going?



Where does the money come from? FY 2016-17

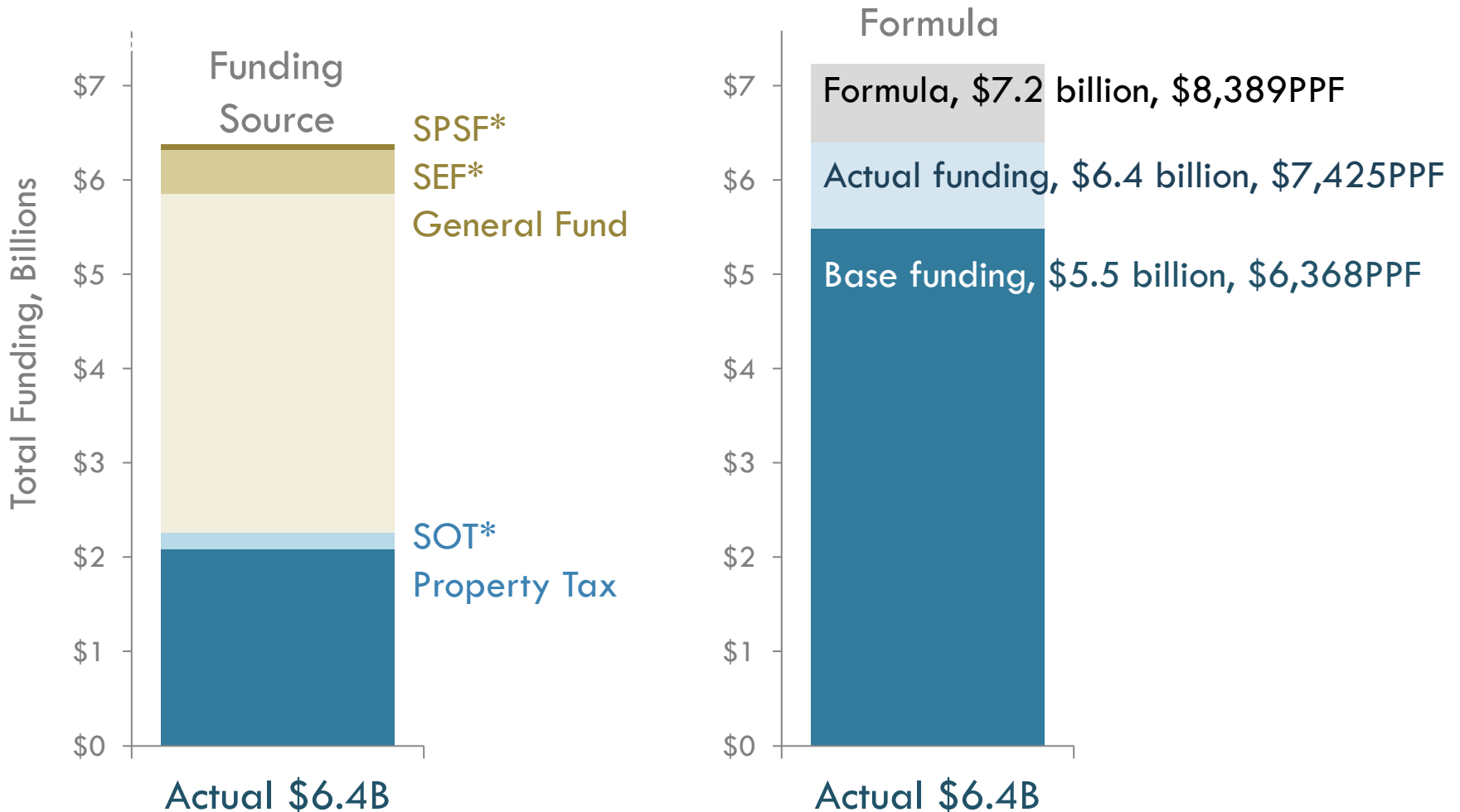


$$\text{State Funding} = \text{Total Program Funding} - \text{Local Share}$$

*SPSF = State Public School Fund. SEF = State Education Fund. SOT = specific ownership tax.

Where are we?

11.5% lower than formula without “negative factor”



*SPSF = State Public School Fund. SEF = State Education Fund. SOT = specific ownership tax.

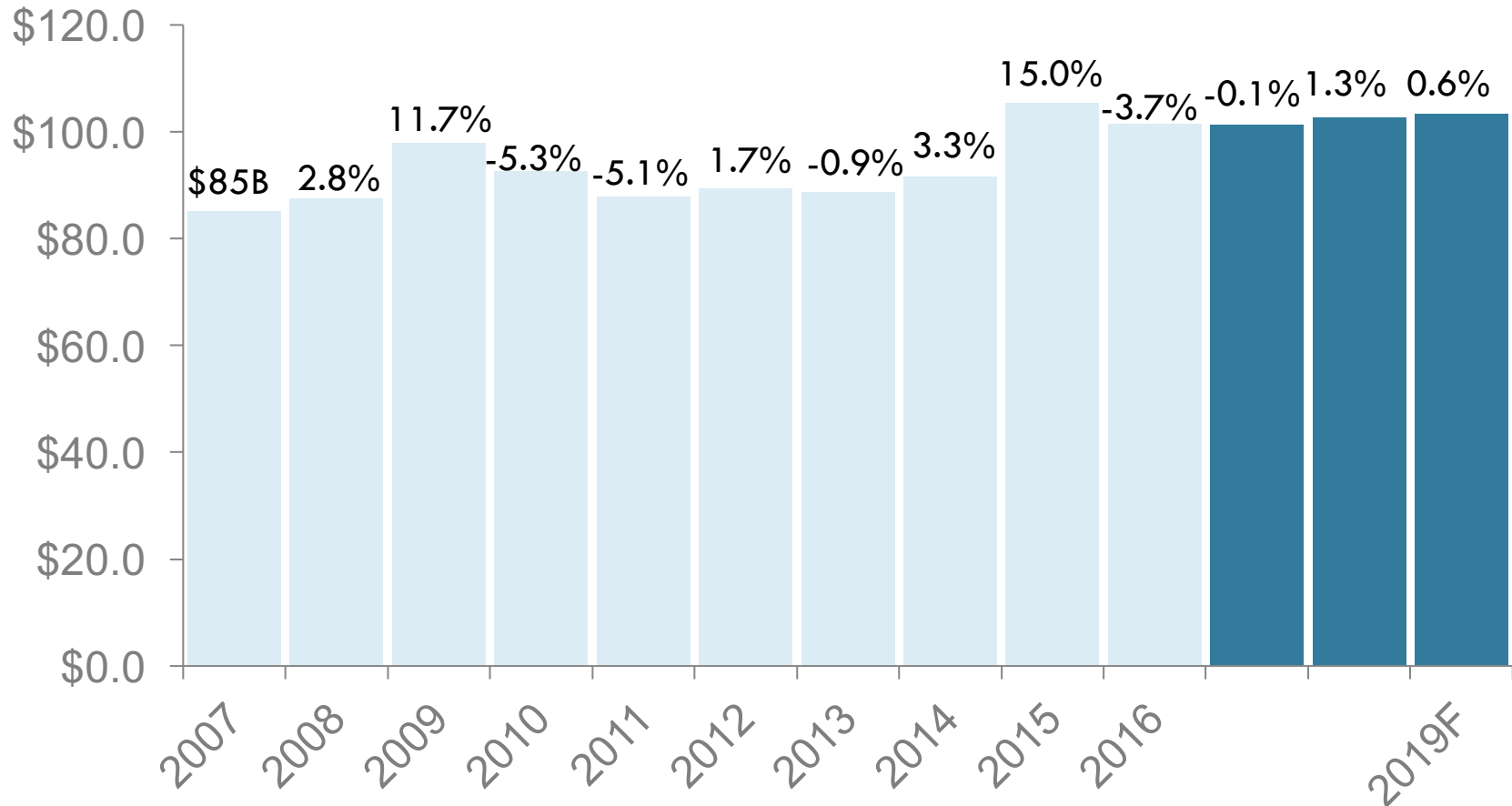
**Assumes adoption of supplementals.

Where are we?

Local Share Falling or Slowing

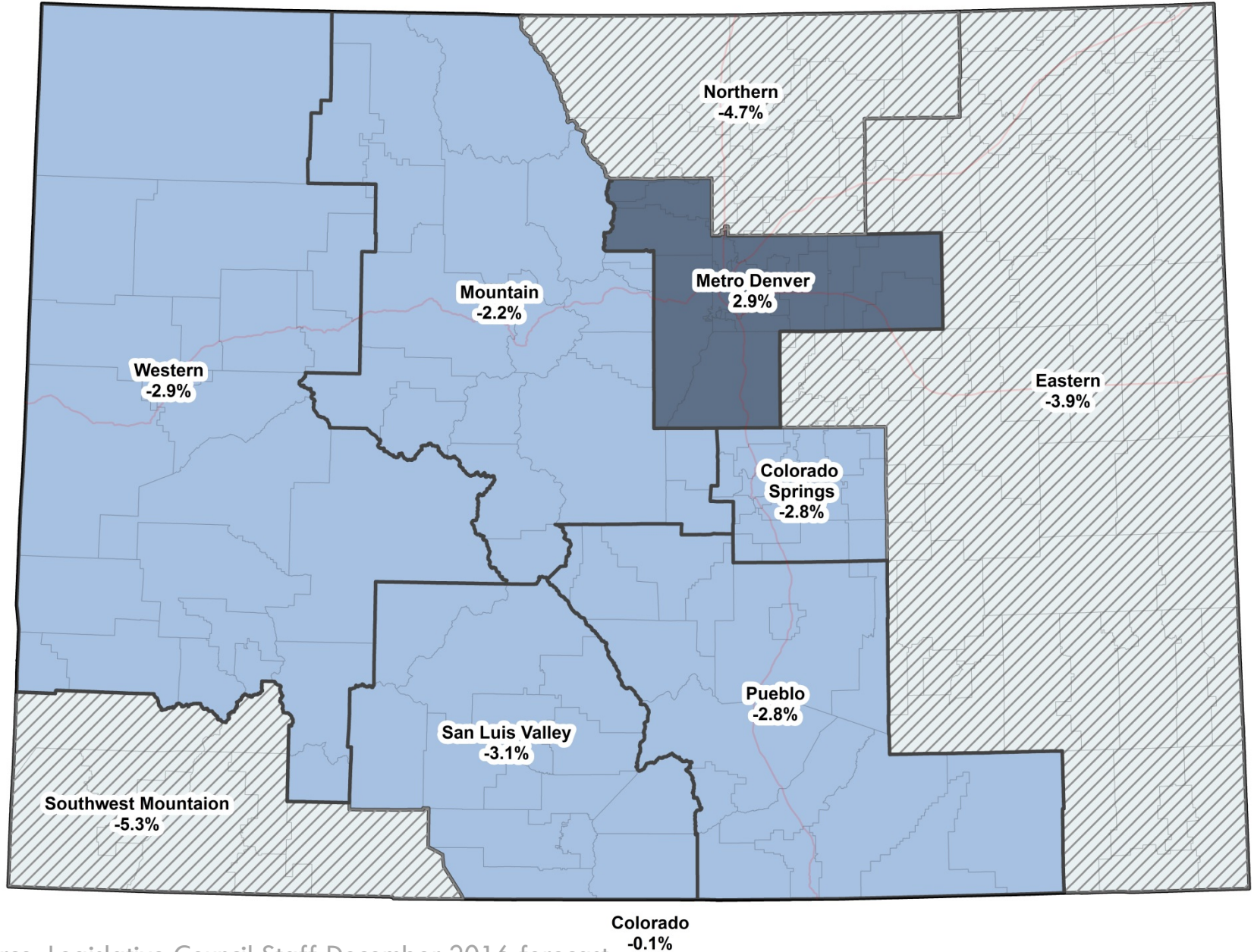
Property Tax Assessed Values, \$Billions

Includes Tax Increment Financing, not adjusted for inflation



Source: Legislative Council Staff December 2016 Forecast; Colorado Division of Property Taxation.

Change in Assessed Values by Region, Tax Year 2017



Source: Legislative Council Staff December 2016 forecast.

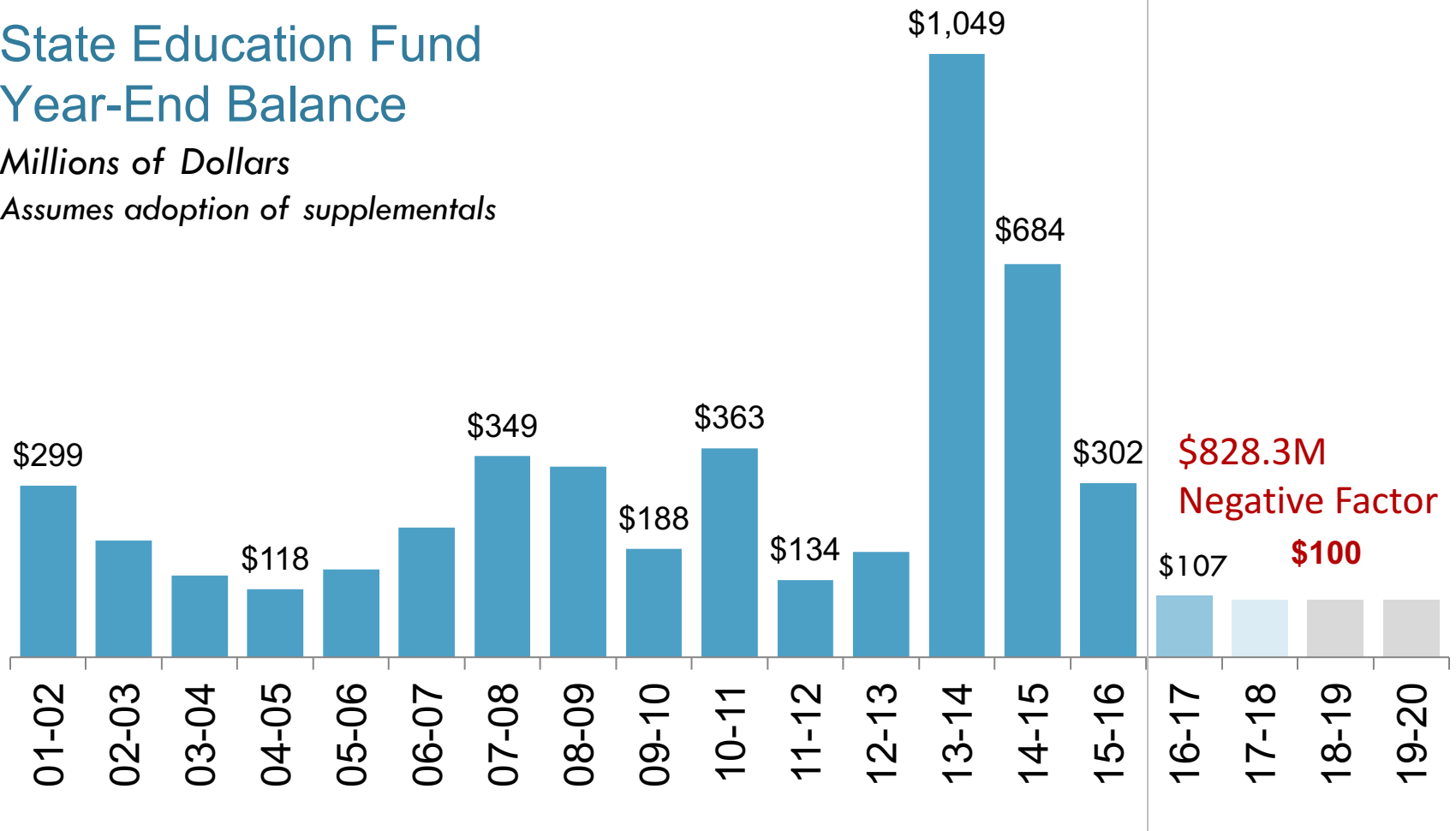
Where are we?

State Education Fund Close to Depleted

State Education Fund Year-End Balance

Millions of Dollars

Assumes adoption of supplementals



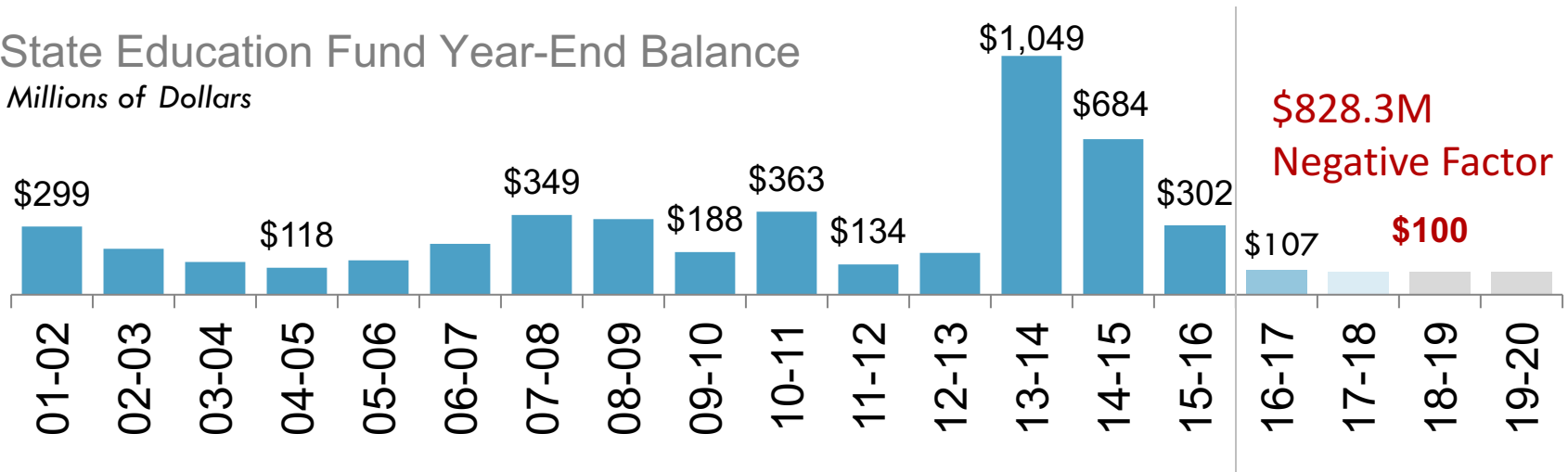
Source: Colorado Office of the State Controller, JBC Staff, and Legislative Council Staff
2017 Report on the State Education Fund

Where are we?

State Education Fund close to depleted...

State Education Fund Year-End Balance

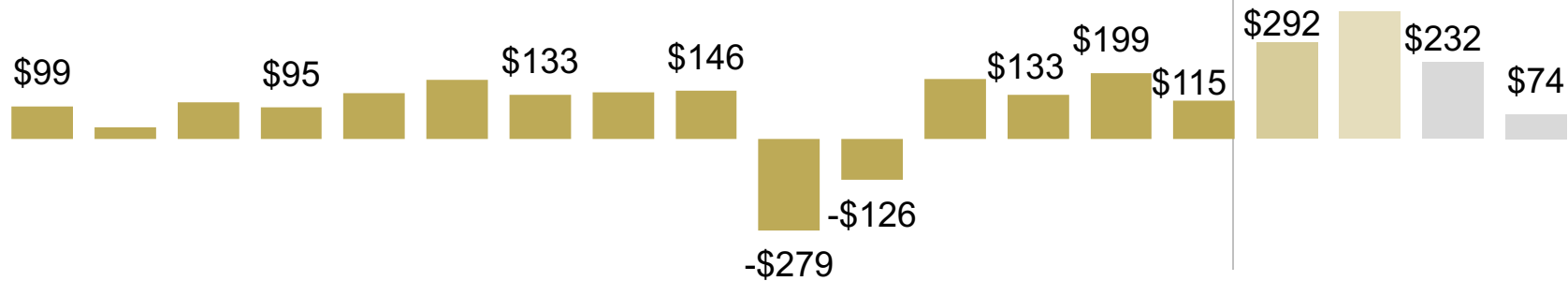
Millions of Dollars



requiring new funding to come from the General Fund

New General Fund Over Prior Year

Millions of Dollars

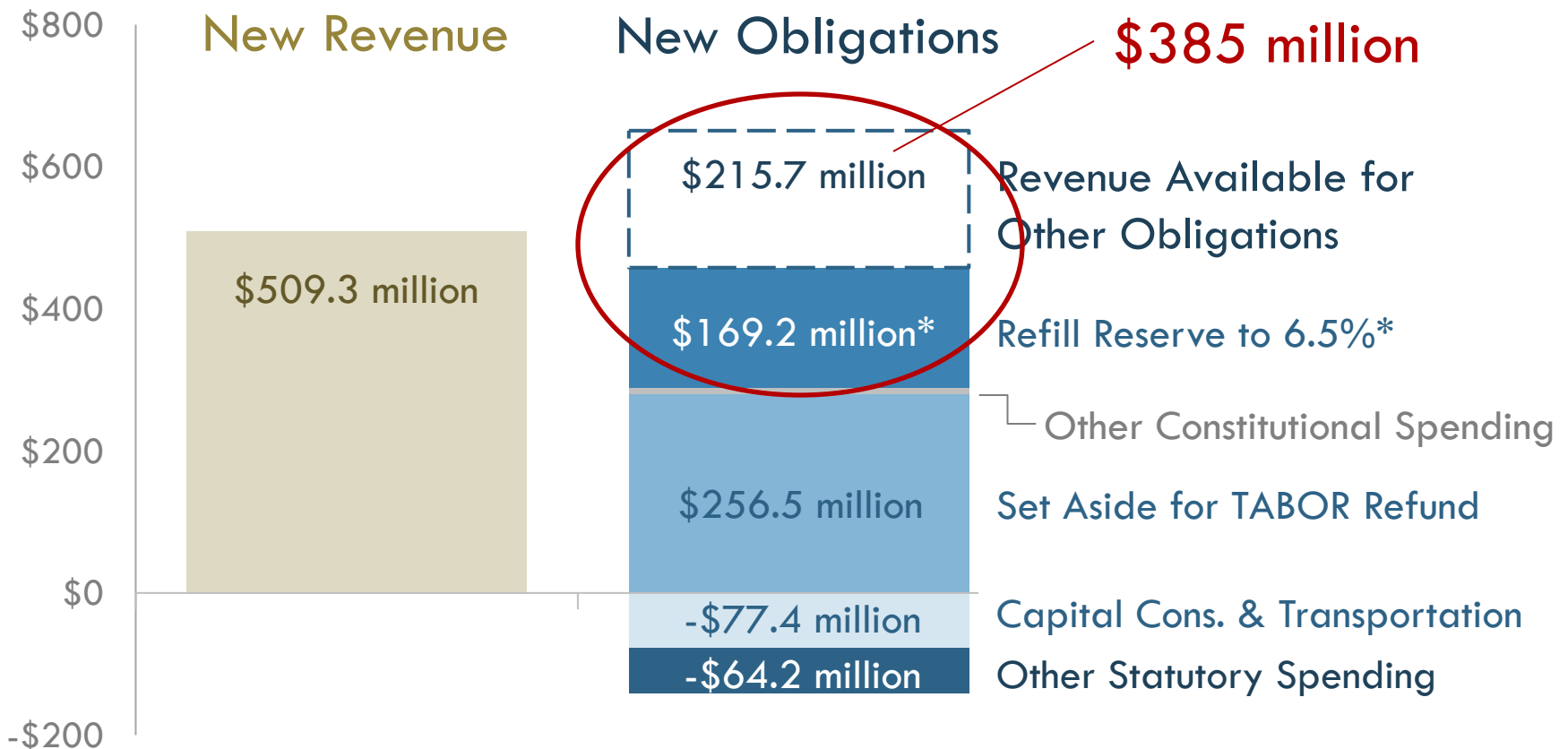


Where are we?

General Fund in Budget Cutting Mode

Change in General Fund Revenue & Obligations

FY 2016-17 to FY 2017-18, \$Millions



*Assumes \$169.2 million FY 2016-17 shortfall is addressed by reducing the reserve and no change in operating appropriations between FY 2016-17 and FY 2017-18.

Education Budget: How did we get here?

- Legal situation
 - The Constitution and school finance
- Financial situation
 - Will likely not catch up from the great recession before the next recession



Colorado State Capitol, 1906

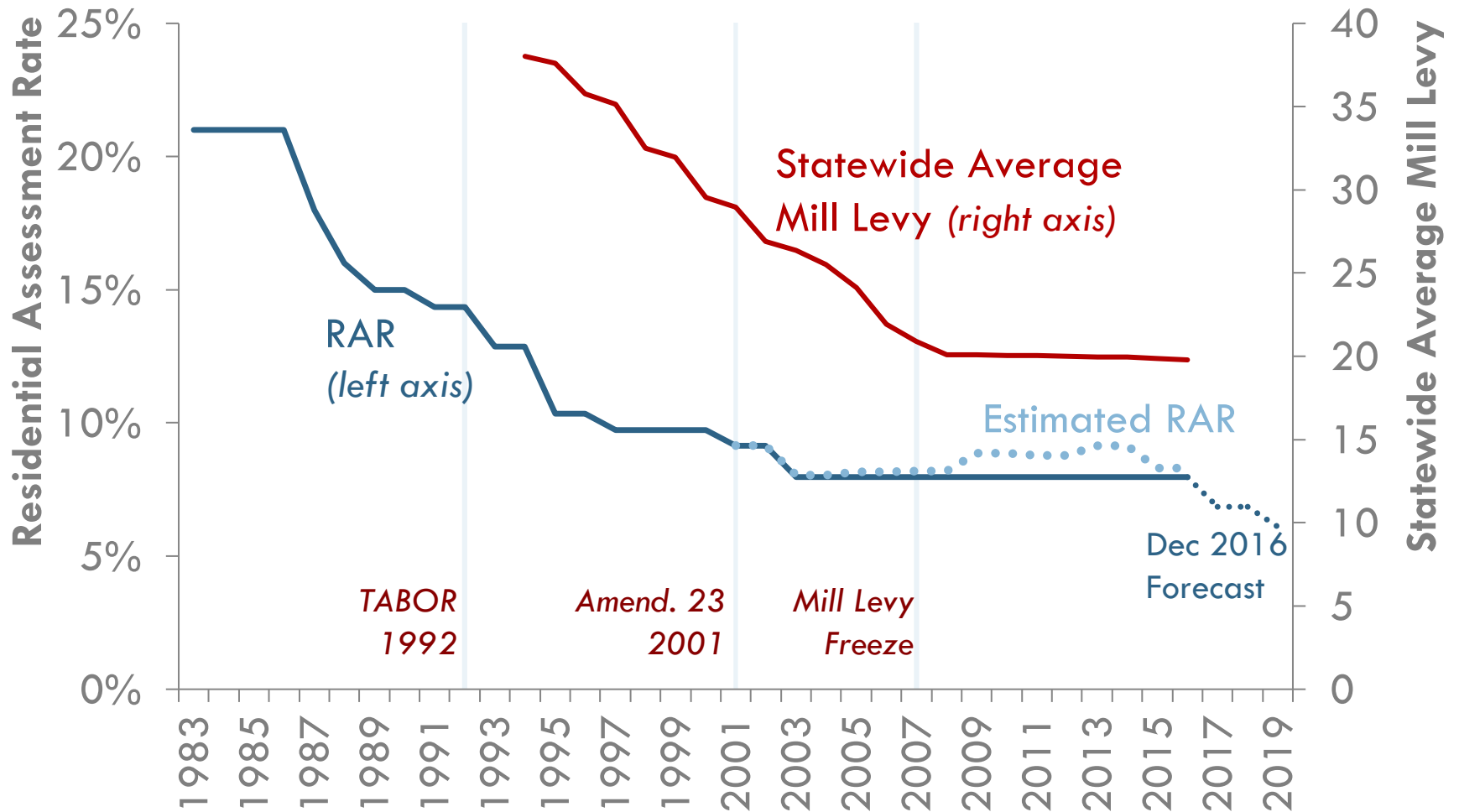
How did we get here?

The Constitution & School Finance

- Gallagher Amendment
 - 45/55 Property Tax Base Ratio
 - Adjusts the Residential Assessment Rate
- TABOR
 - Requires a vote to increase the Residential Assessment Rate or Mill Levy
 - For district's that have not “debruced,” requires mill levies to be reduced when revenue exceeds a district's TABOR limit
- Amendment 23
 - Requires “Base Funding” to Increase

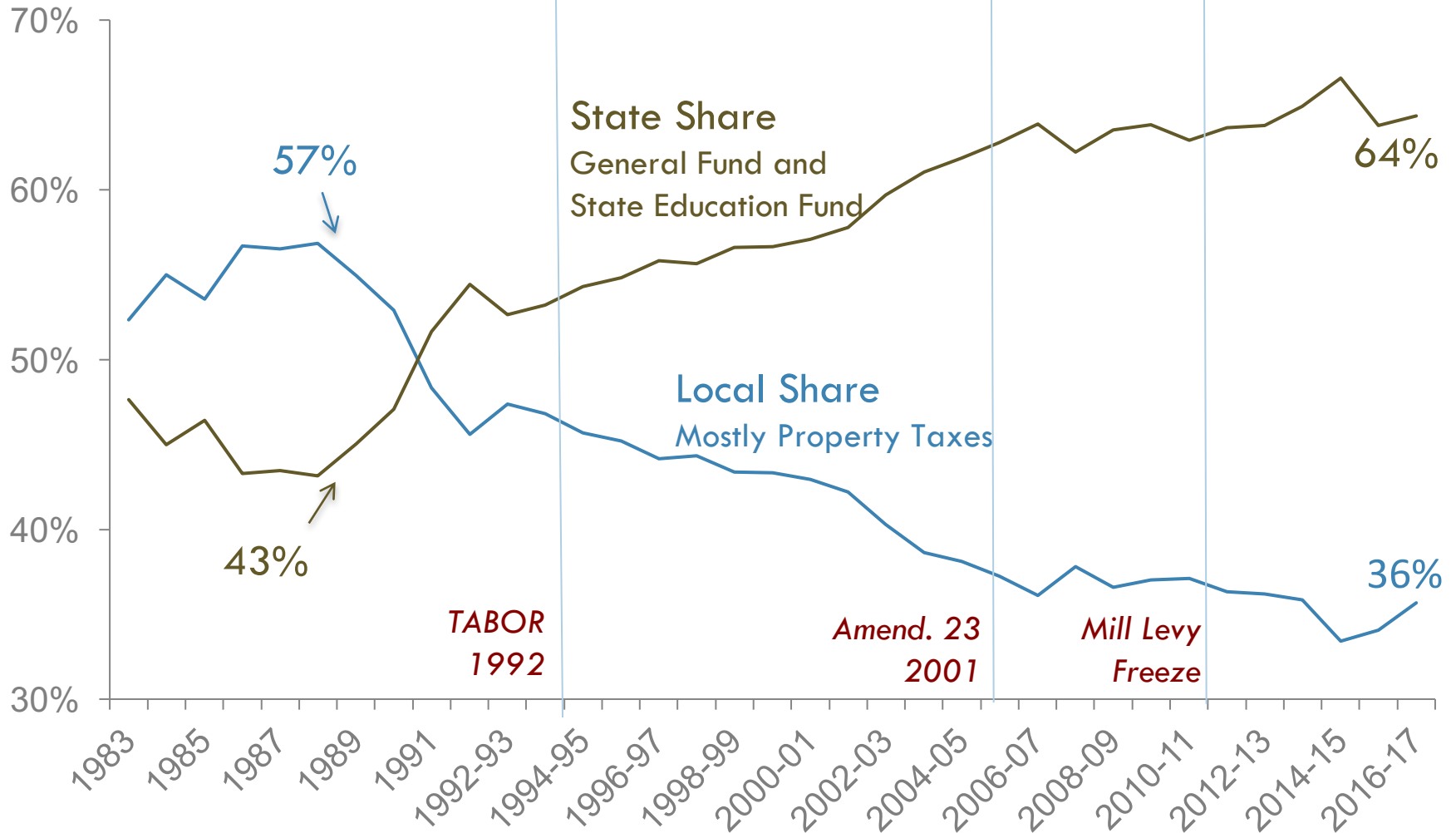
State Constitution constraining local share....

Residential Assessment Rate and School Finance Mill Levy



...and applying pressure on the state budget

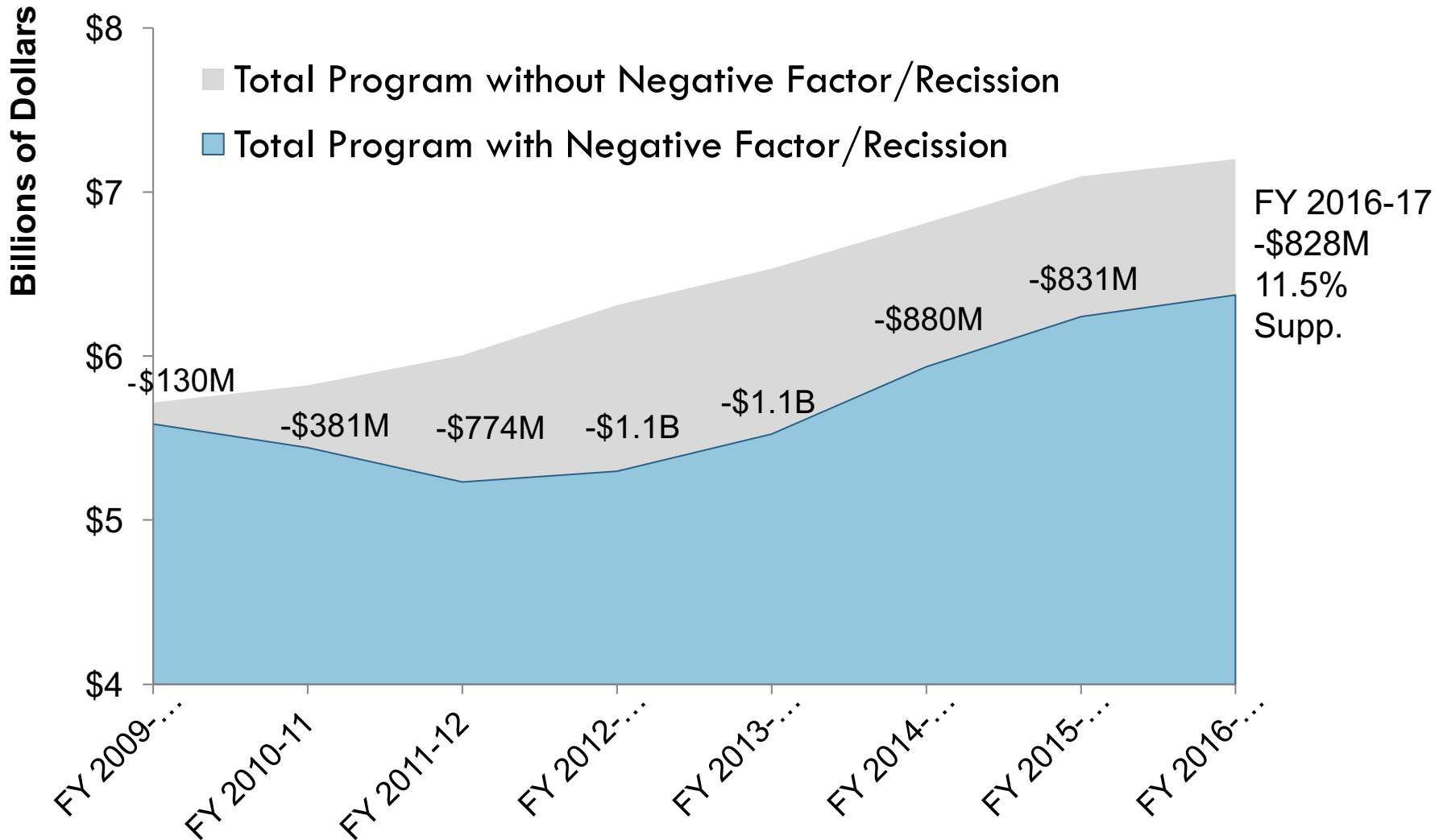
Relative State and Local Shares of School Finance



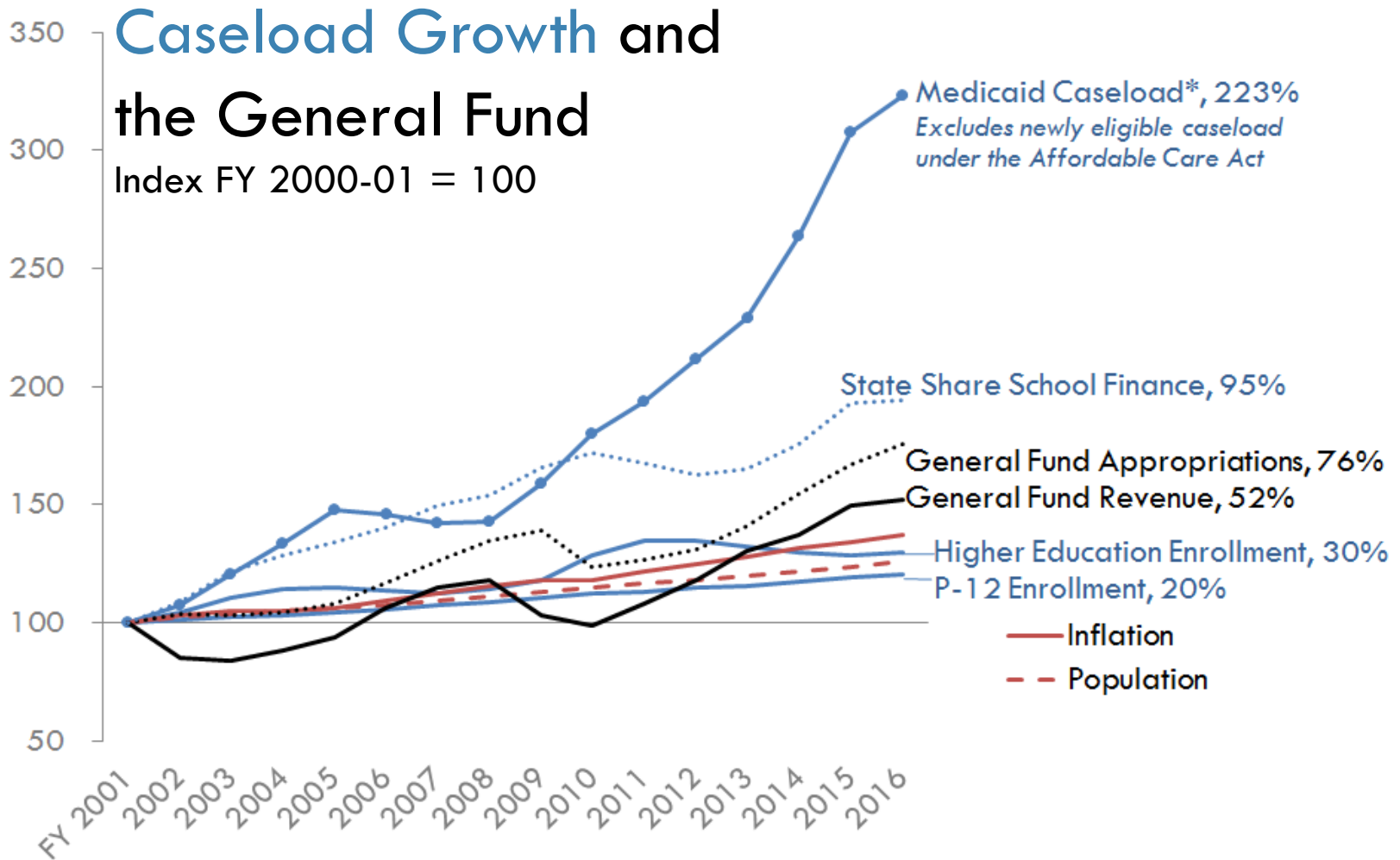
Note: Prior to 1993, K-12 funding was done on a calendar year basis.

...in turn, applying pressure to school districts

School Finance Total Program



Meanwhile, economic and demographic factors have also applied pressure to the state budget...



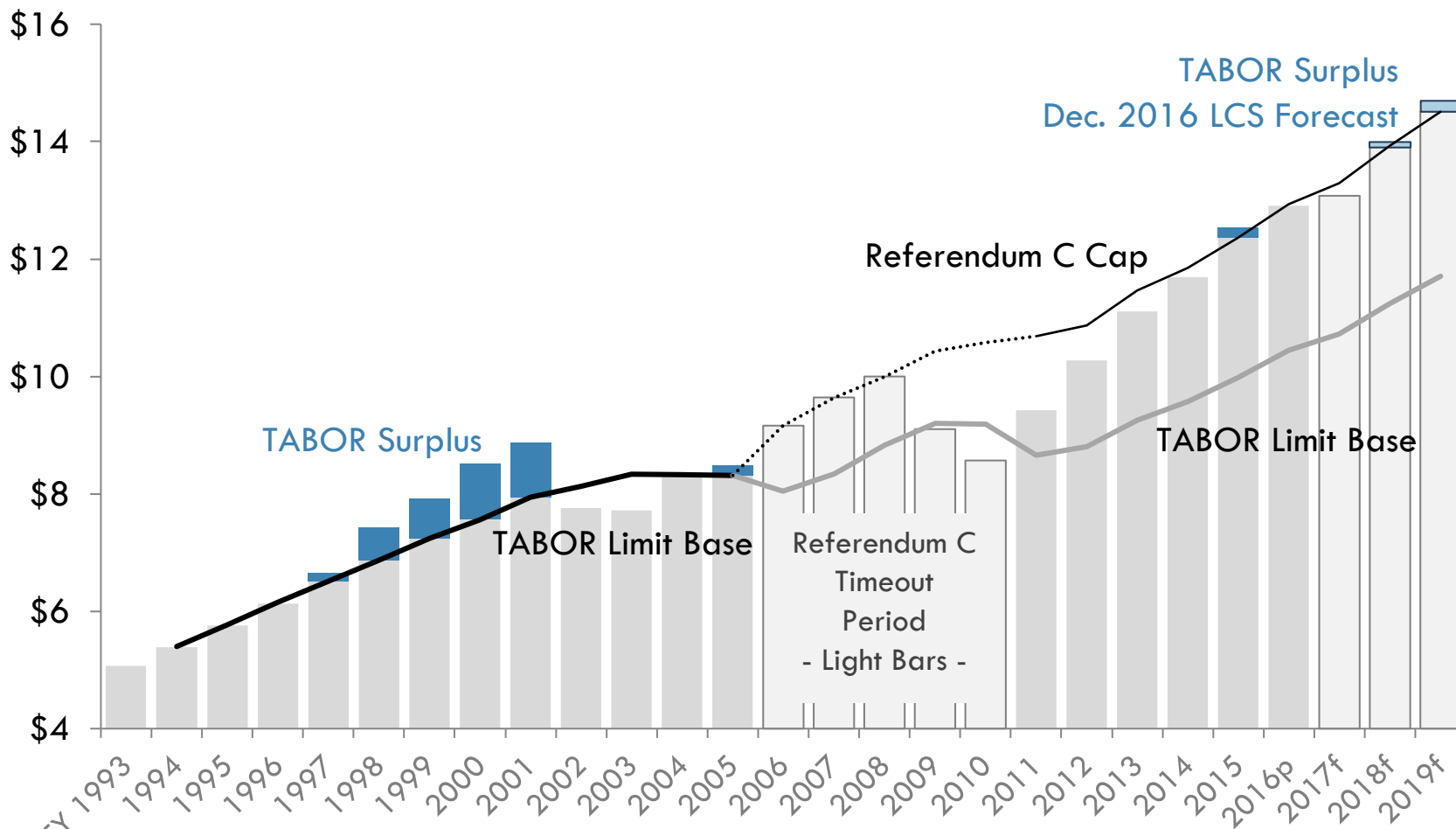
Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Colorado State Demographer's Office, Joint Budget Committee Staff, Department of Health Care Policy and Financing, Department of Higher Education, and Department of Education.

*Excludes newly eligible caseload funded by the federal government pursuant to the Affordable Care Act, which added an additional 411,000 in FY 2015-16. 15

..while the State Constitution has again begun to constrain state revenue.

TABOR and Referendum C

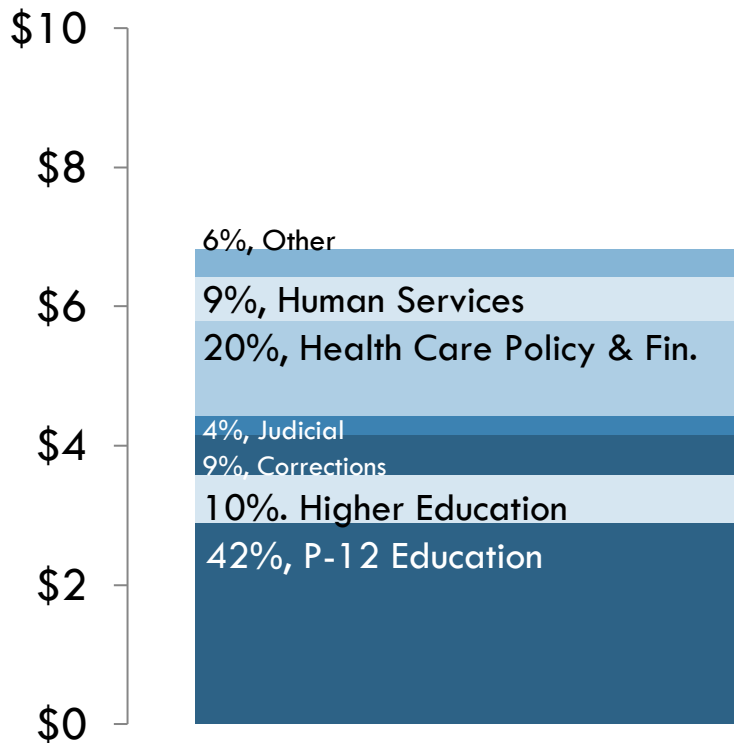
Billions of Dollars



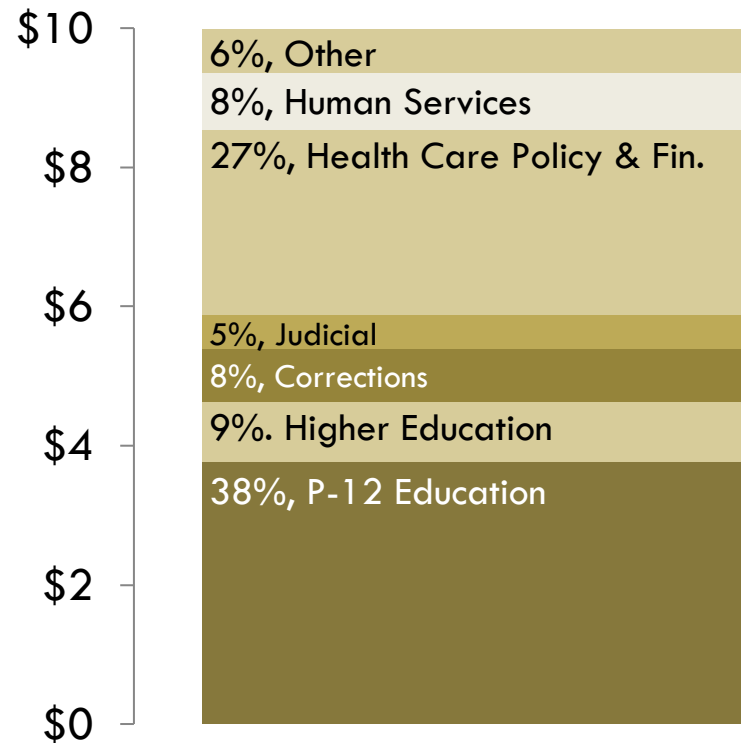
Source: Colorado State Controllers Office and Legislative Council Staff, December 2016 Forecast.

What the General Fund Pays For

FY 2006-07, \$6.8 Billion



FY 2016-17, \$9.9 Billion




Totals may not sum due to rounding.


Source: Joint Budget Committee. Excludes transfers for transportation and capital construction.

Property Taxes in Colorado

Actual Values \times Assessment Rate = Assessed Values



7.96% Residential*
29% Nonresidential

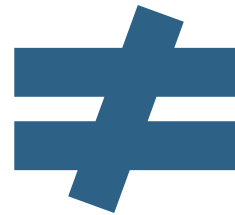
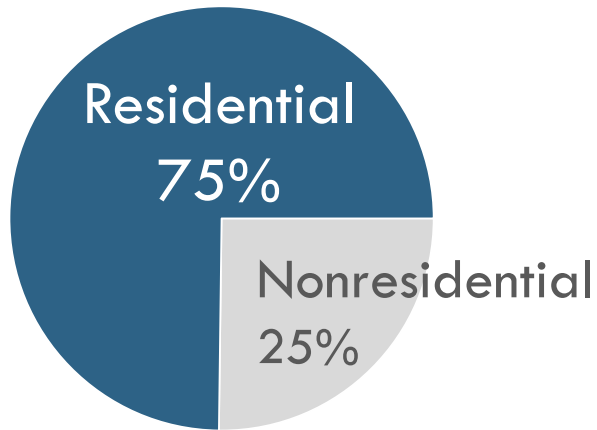


Assessed Values \times Local Mill Levy = Taxes Owed

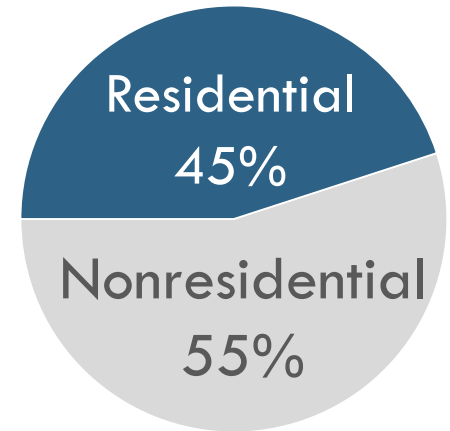


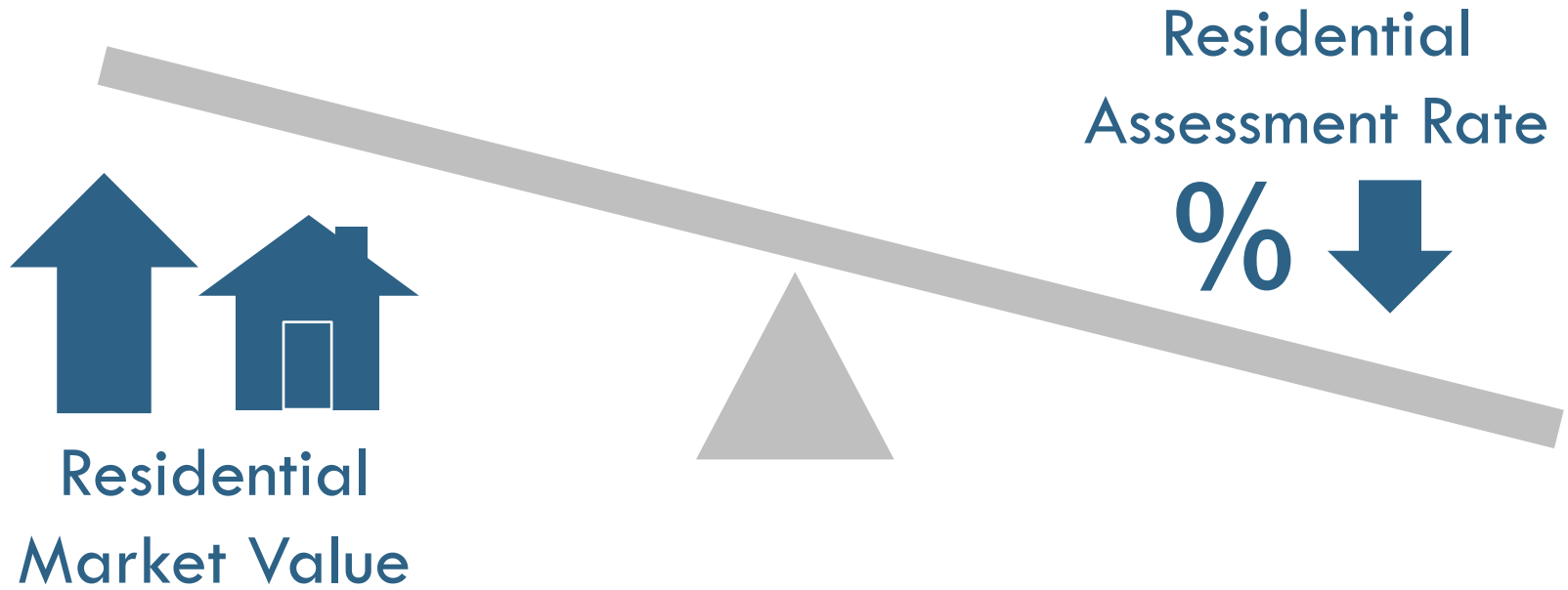
*2016 Residential Assessment Rate

Market Value



Target Share





Actual (Market) Values

The Colorado Property Tax Base

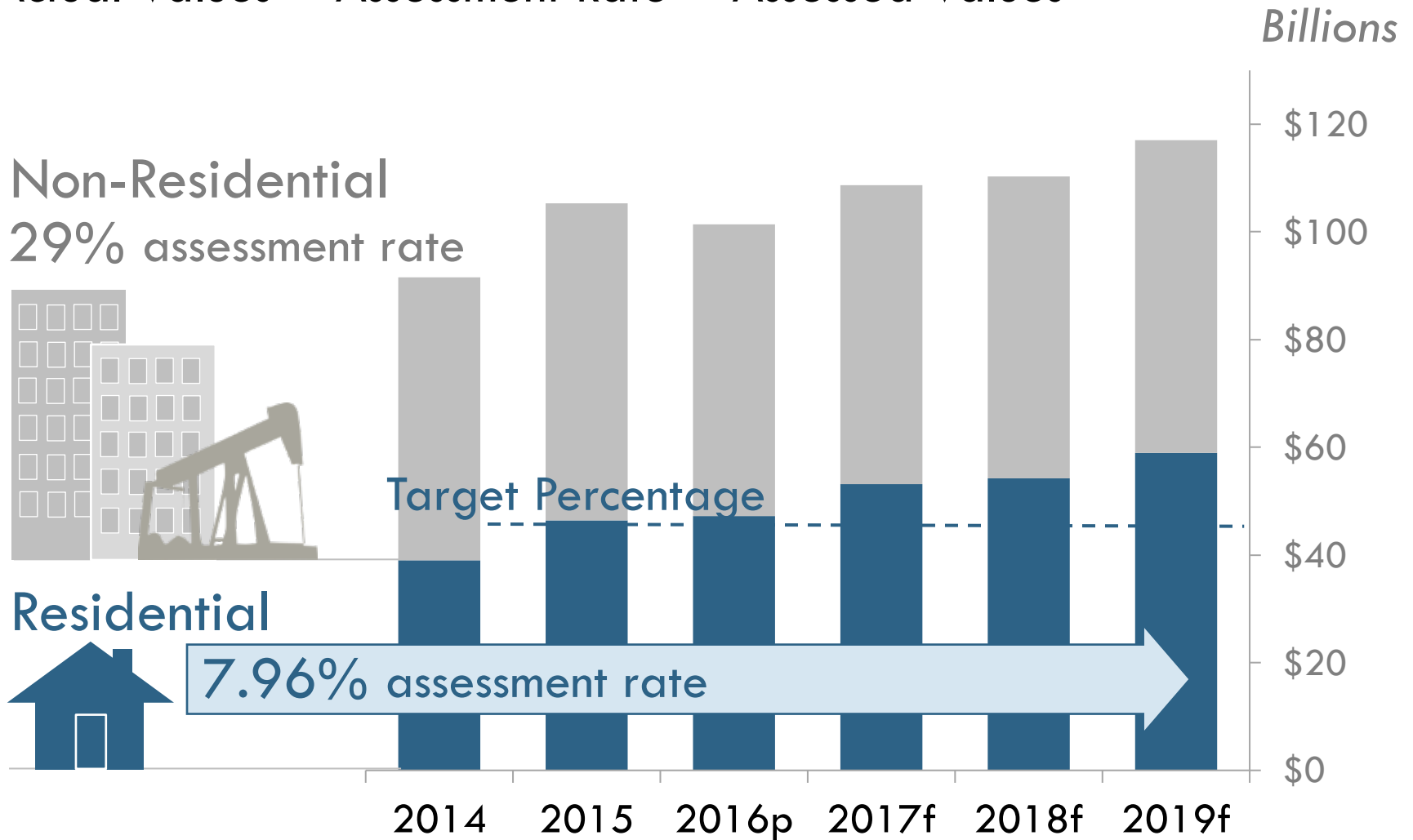


Source: Division of Property Taxation and Legislative Council Staff forecast.

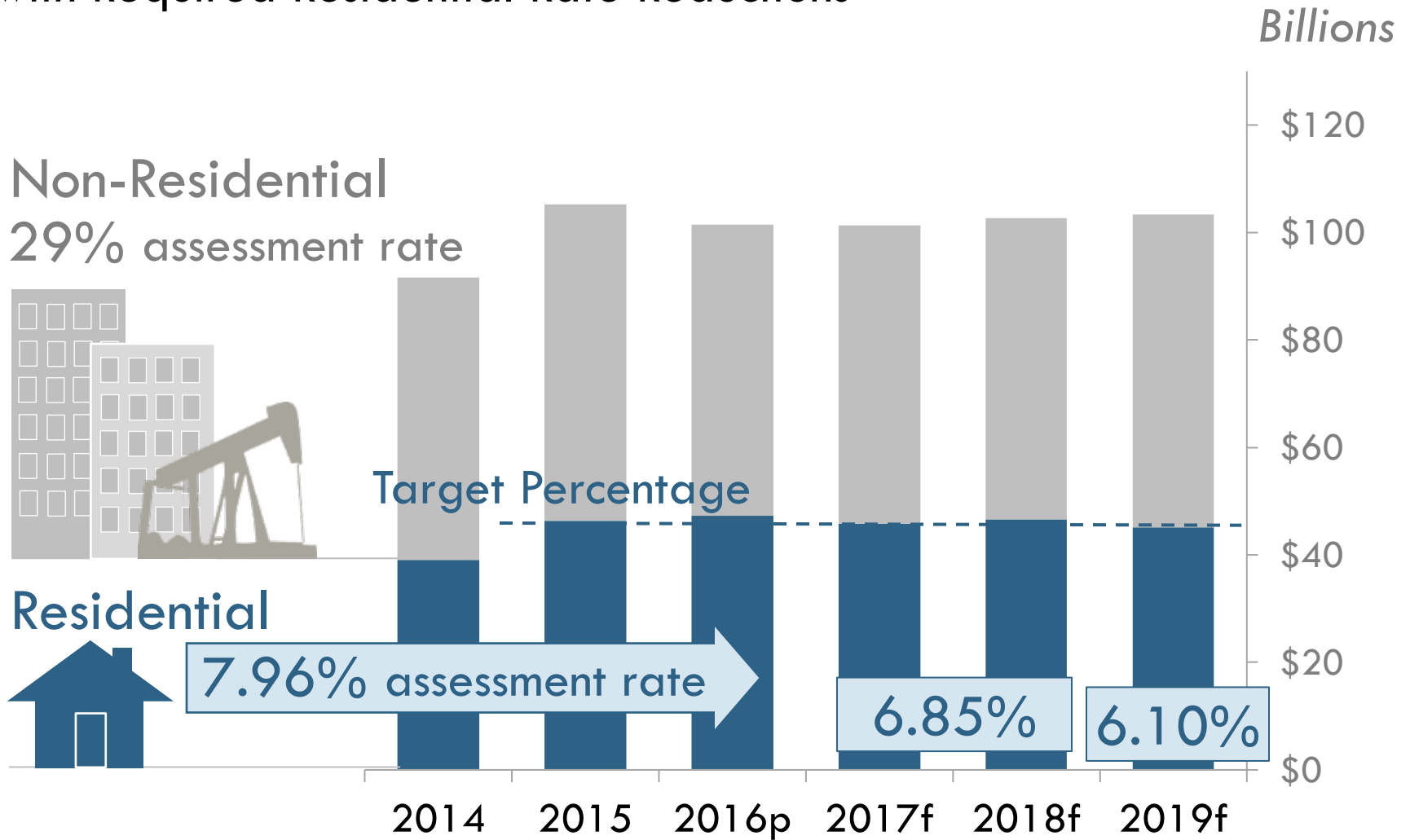
*Calculated as assessed values divided by an assumed 29 percent assessment rate.

Assessed Values

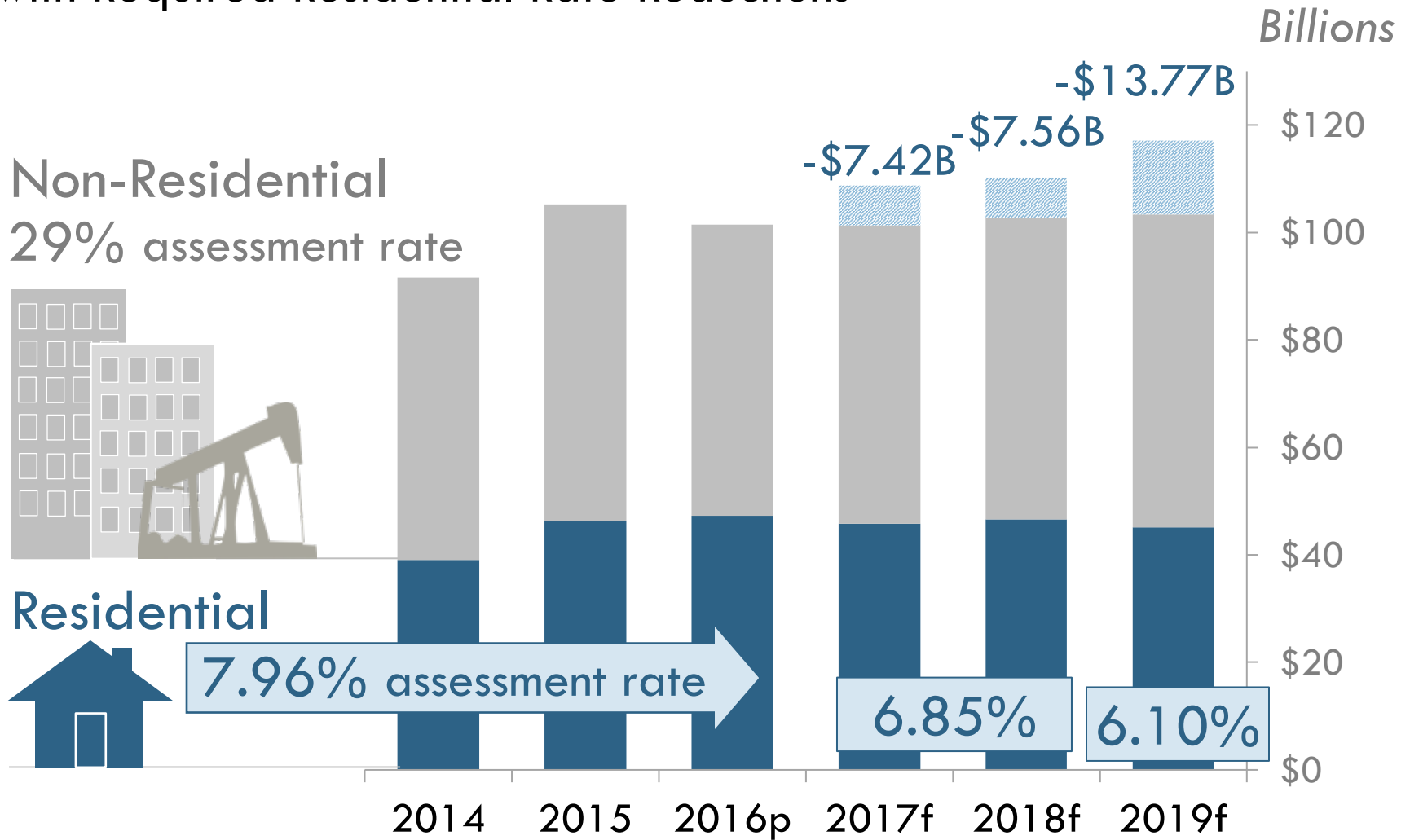
$$\text{Actual Values} \times \text{Assessment Rate} = \text{Assessed Values}$$



Assessed Values with Required Residential Rate Reductions



Assessed Values with Required Residential Rate Reductions



Two Independent Sets of Expectations

| | Legislative Council | Division of Property Taxation |
|--|----------------------|--|
| <i>Change in</i> Res. Market Values | 12.6% | 18.0% |
| RAR | 6.85% | 6.56% |
| <i>Change in</i> <u>Assesed Values</u> | <u>-0.1%</u> | <u>3.5%</u> |
| Residential | -3.1% | -2.7% |
| Non-residential | 2.5% | 9.0% |
| <i>FY 2017-18</i> General Fund | \$385 million | <i>less \$27.4 million*</i> \$358 million |

Source: Legislative Council Staff, Division of Property Taxation, and Office of State Planning & Budgeting.

*Adjusted for difference in property tax expectations and 2.8% inflation.

Where are we going? Tough Budgets will Persist

- Revenue growth slowing
 - Slower economy
 - Demographic changes
 - State Constitution
- Budget pressures rising



*Colorado State Capitol,
Reflected on the Windows of the
Joint Budget Committee*

Where are we going?

Several factors will continue to slow economic growth.

- 1) Full employment
- 2) Demographic change
- 3) Rising inflationary pressures and interest rates
- 4) Subdued global demand

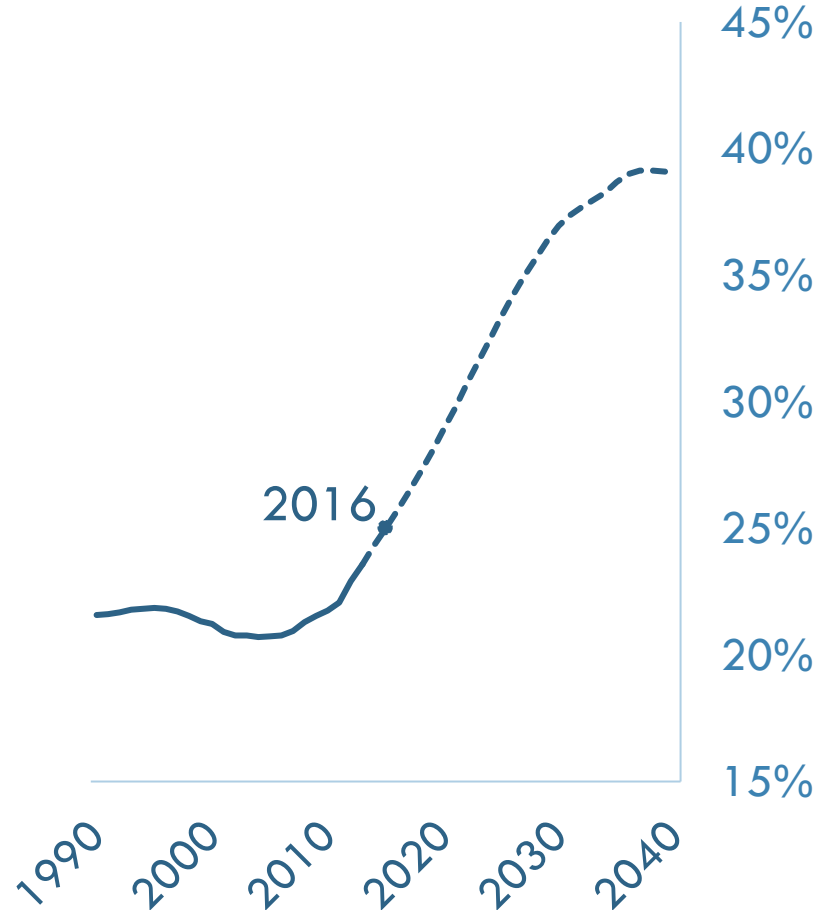
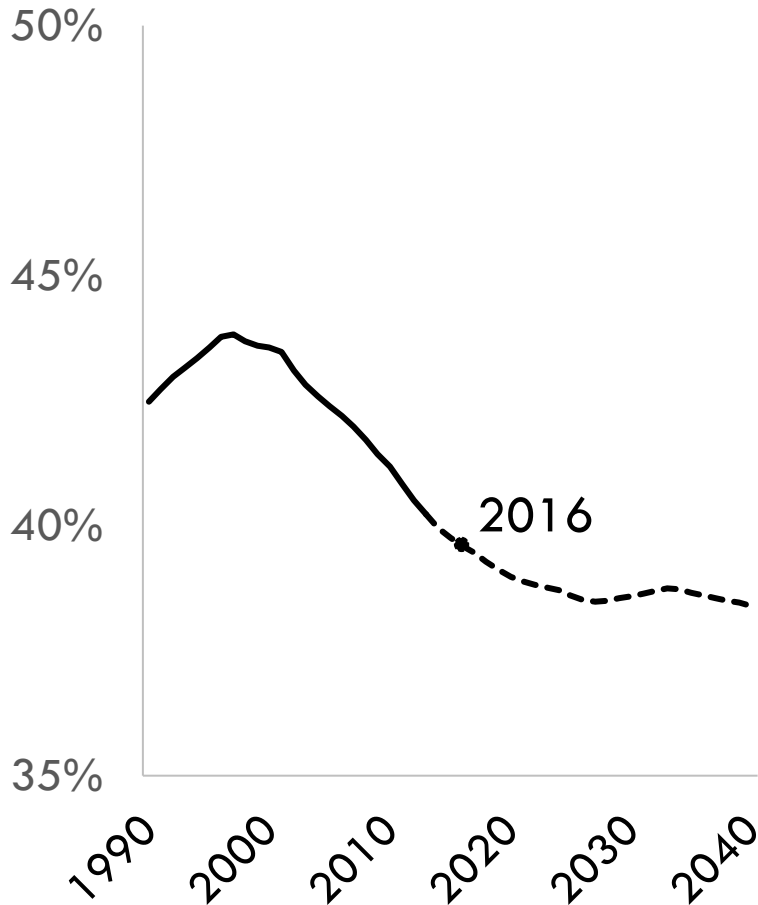
Risks to the forecast are skewed to the downside on elevated global political uncertainty.

Where are we going?

A rising share of the population is age 65+

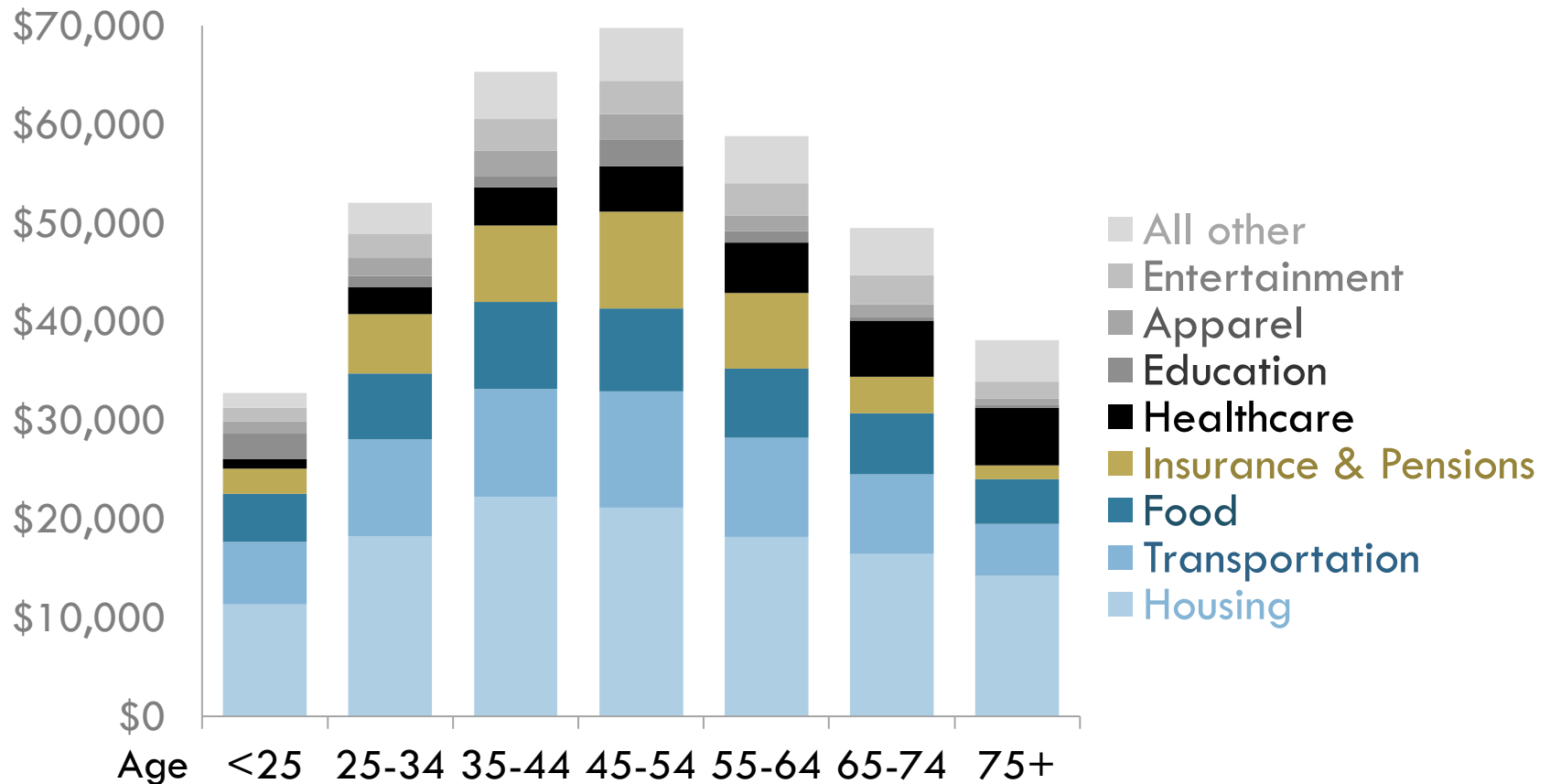
Prime Working-Age Population (25 to 54)
Share of Total U.S. Population

Old Age Dependency Ratio
65+: Ages 20 to 64



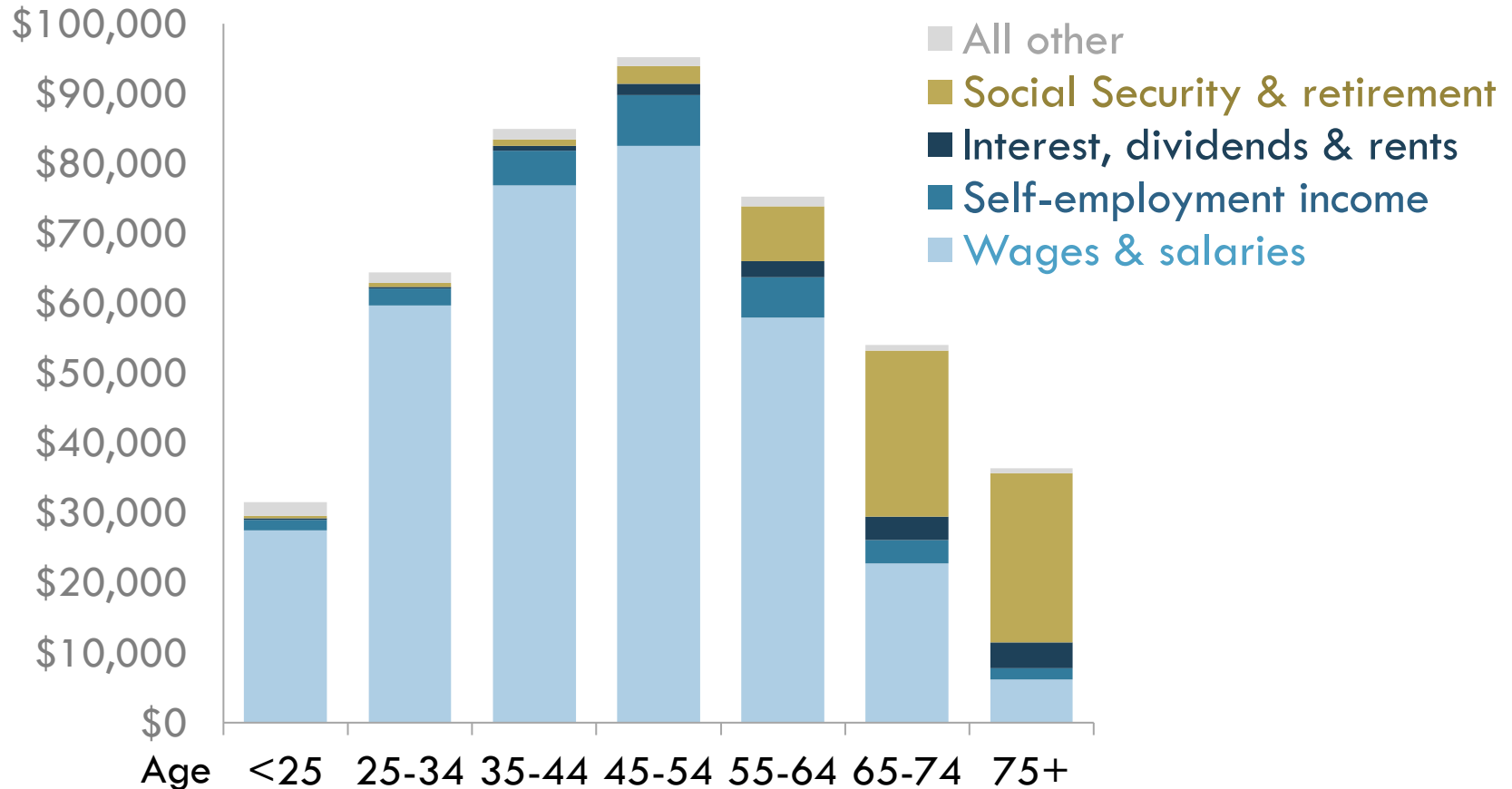
Consumer spending rises and falls with age

Average 2015 Expenditures



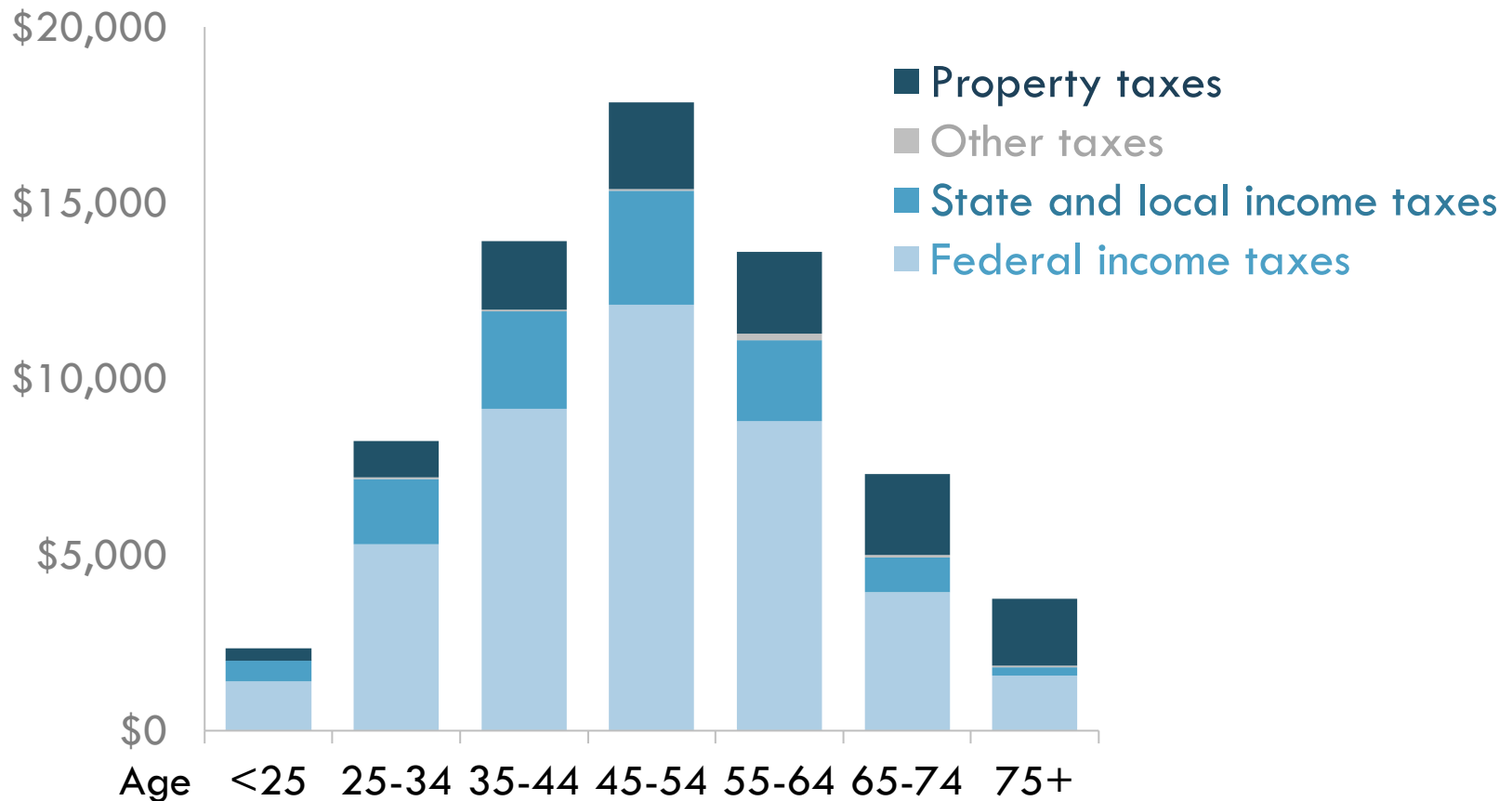
Incomes peak for those in their 40s and 50s

Average 2015 Incomes



Taxes peak for those in their 40s and 50s

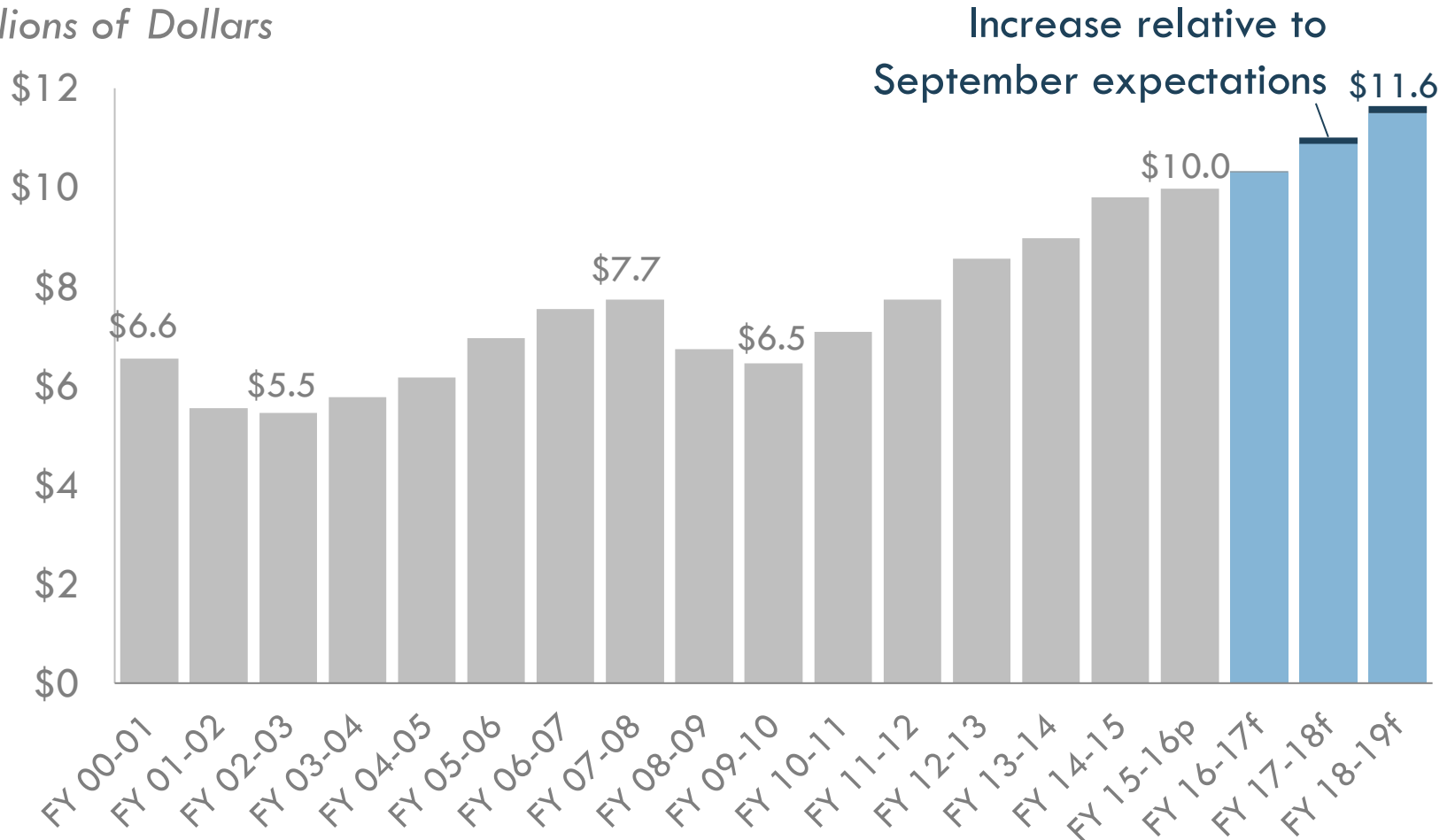
Average 2015 Taxes



Expectations for revenue were increased slightly relative to the September forecast.

General Fund Revenue

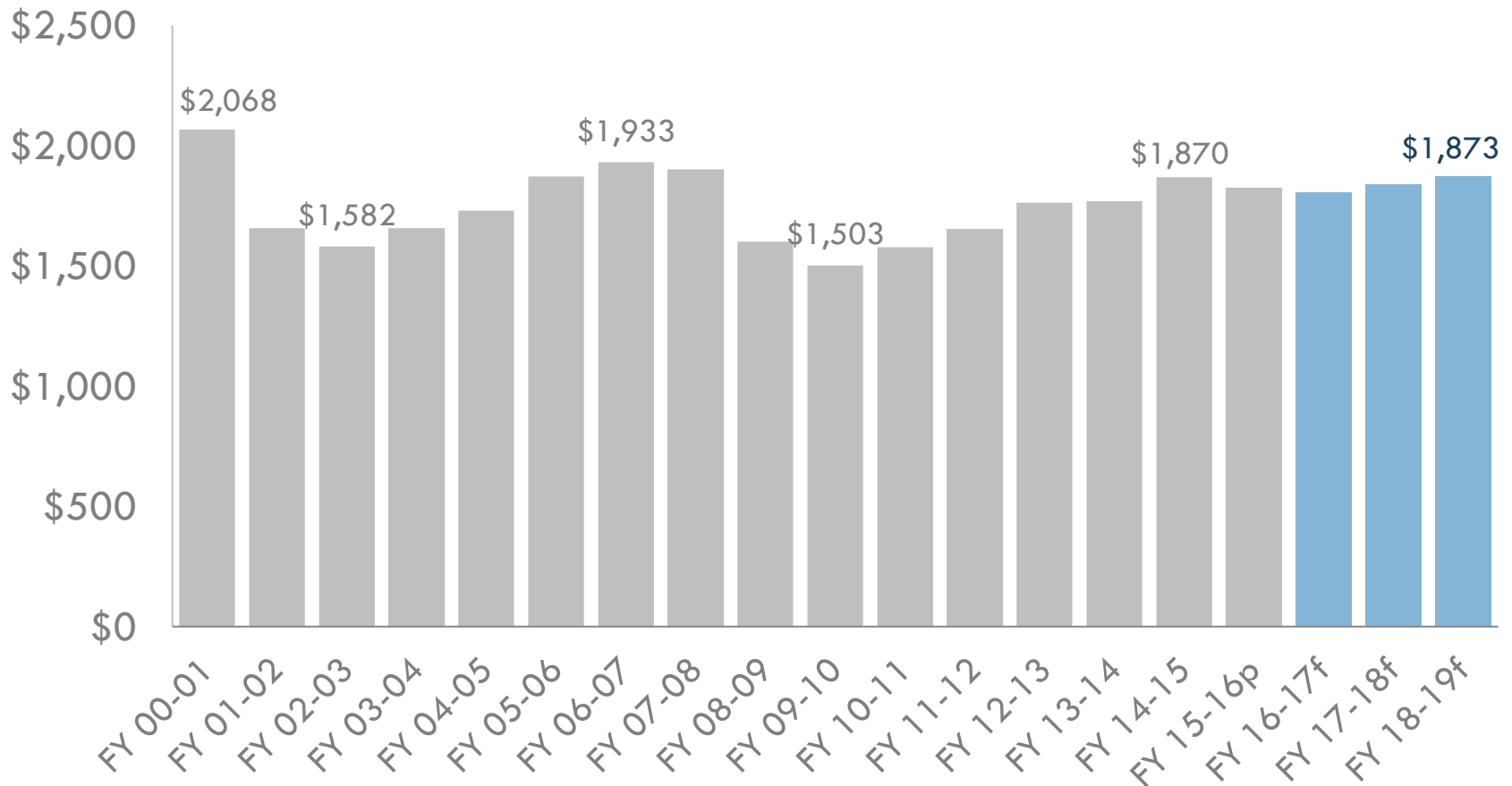
Billions of Dollars



General fund revenue is projected to grow at a rate consistent with inflation and population growth.

General Fund Revenue

Inflation-Adjusted, per Capita



Where are we going?

Aging will shift state expenditures

↑ State and local pensions

↑ Health care services

- Low income elderly (Medicaid)
- Higher insurance premiums for government employers

↑ Shifts in demands for certain services

- Accessible transportation
- Home health

↓ Shifts in support for services

- Education

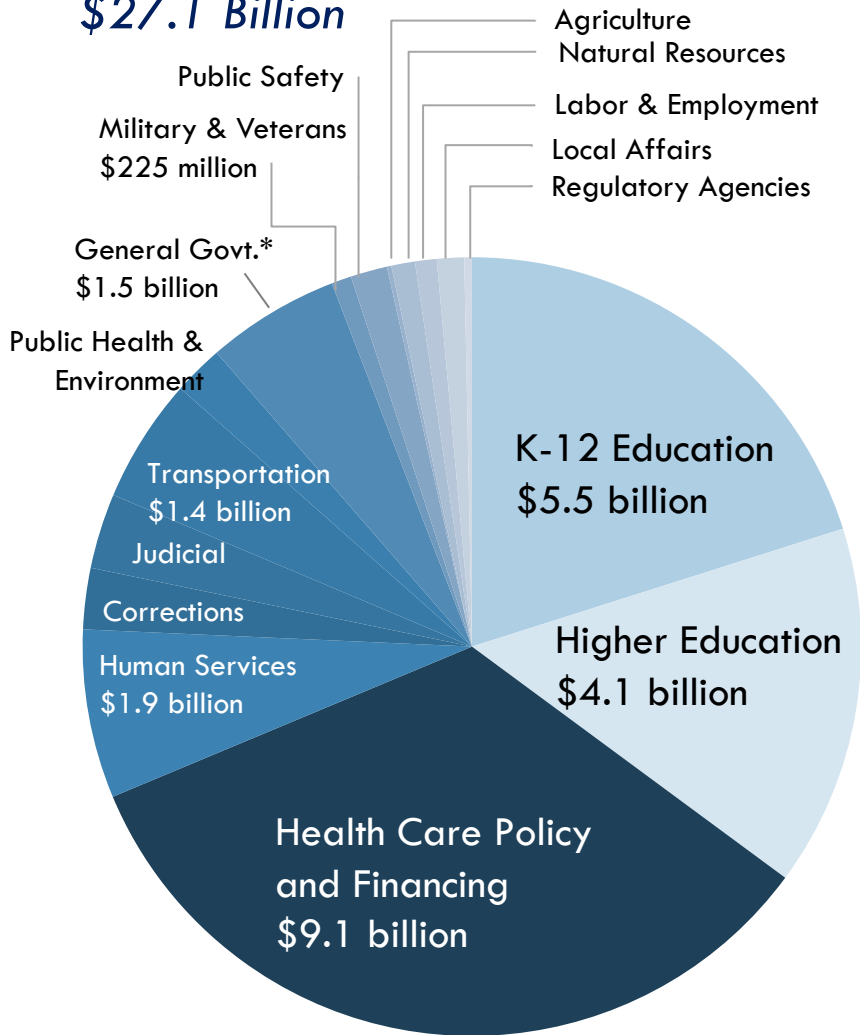
Summary

- Where are we?
 - 11.5% lower than formula
 - Local share falling or slowing
 - State Education Fund close to depleted
 - General Fund budget in cutting mode
- How did we get here?
 - Business cycle and constitutional requirements
- Where are we going?
 - Slower revenue growth
 - Greater pressure on expenditures

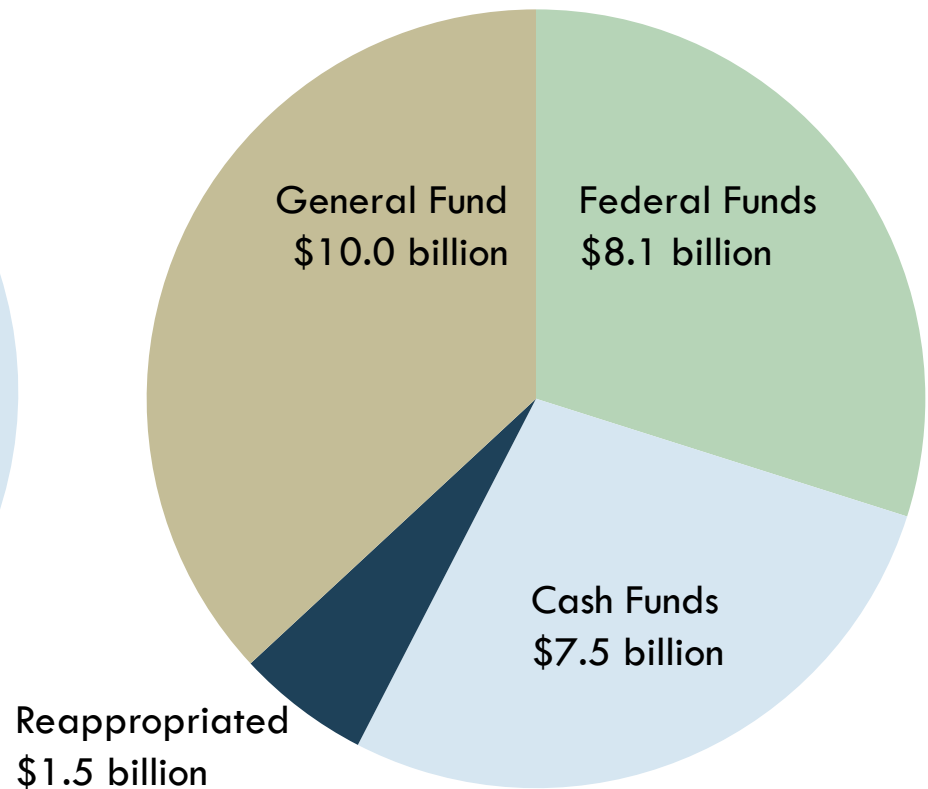


FY 2016-17 State Operating Budget Overview

\$27.1 Billion

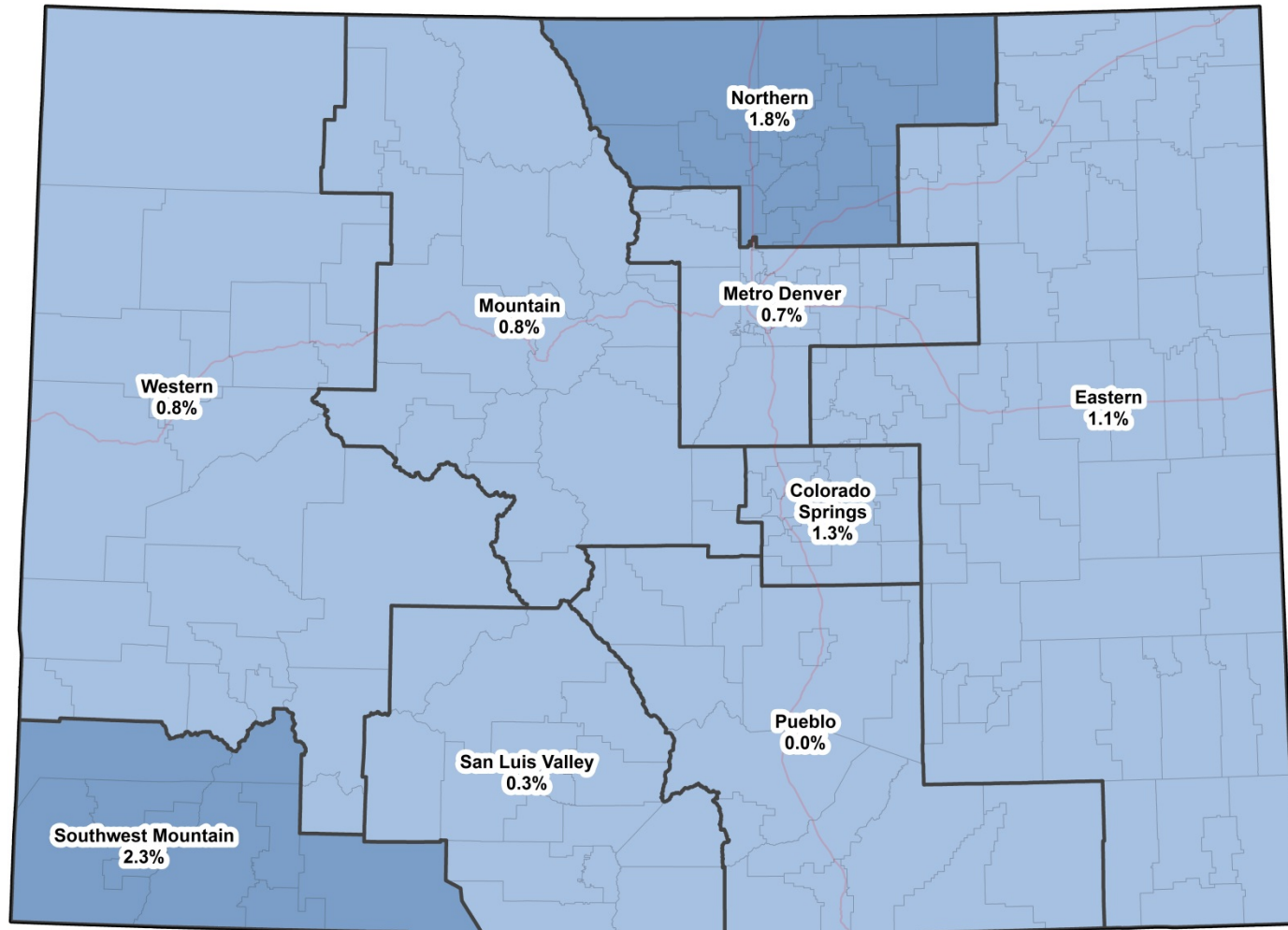


**State Budget
By Funding Source**



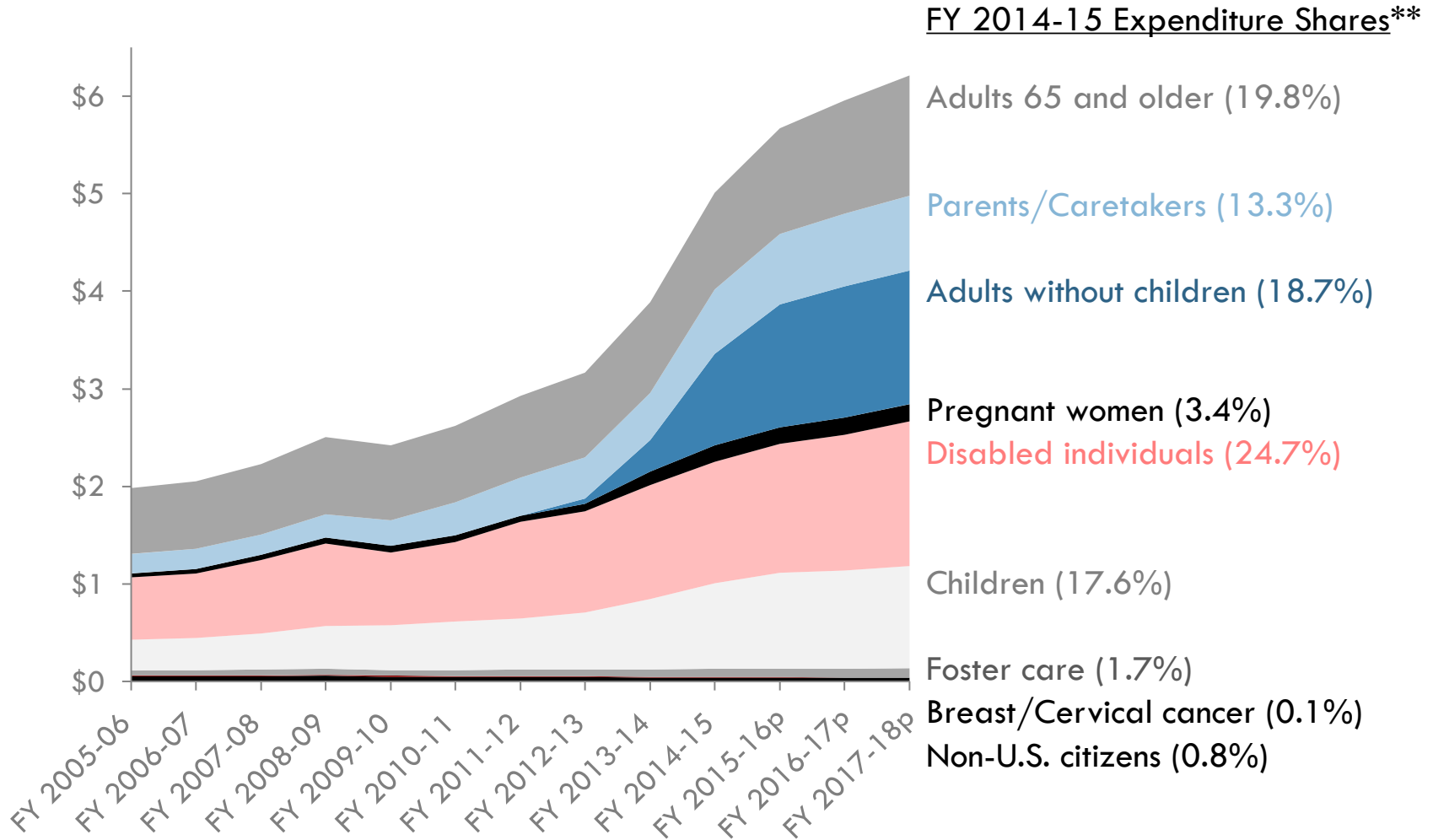
*General Government: Governor, Legislature, Law, State, Personnel & Administration, Revenue, and Treasury

Percent Change in School Enrollment by Economic Region 2017-18 School Year



State & Federal Medicaid Expenditures*

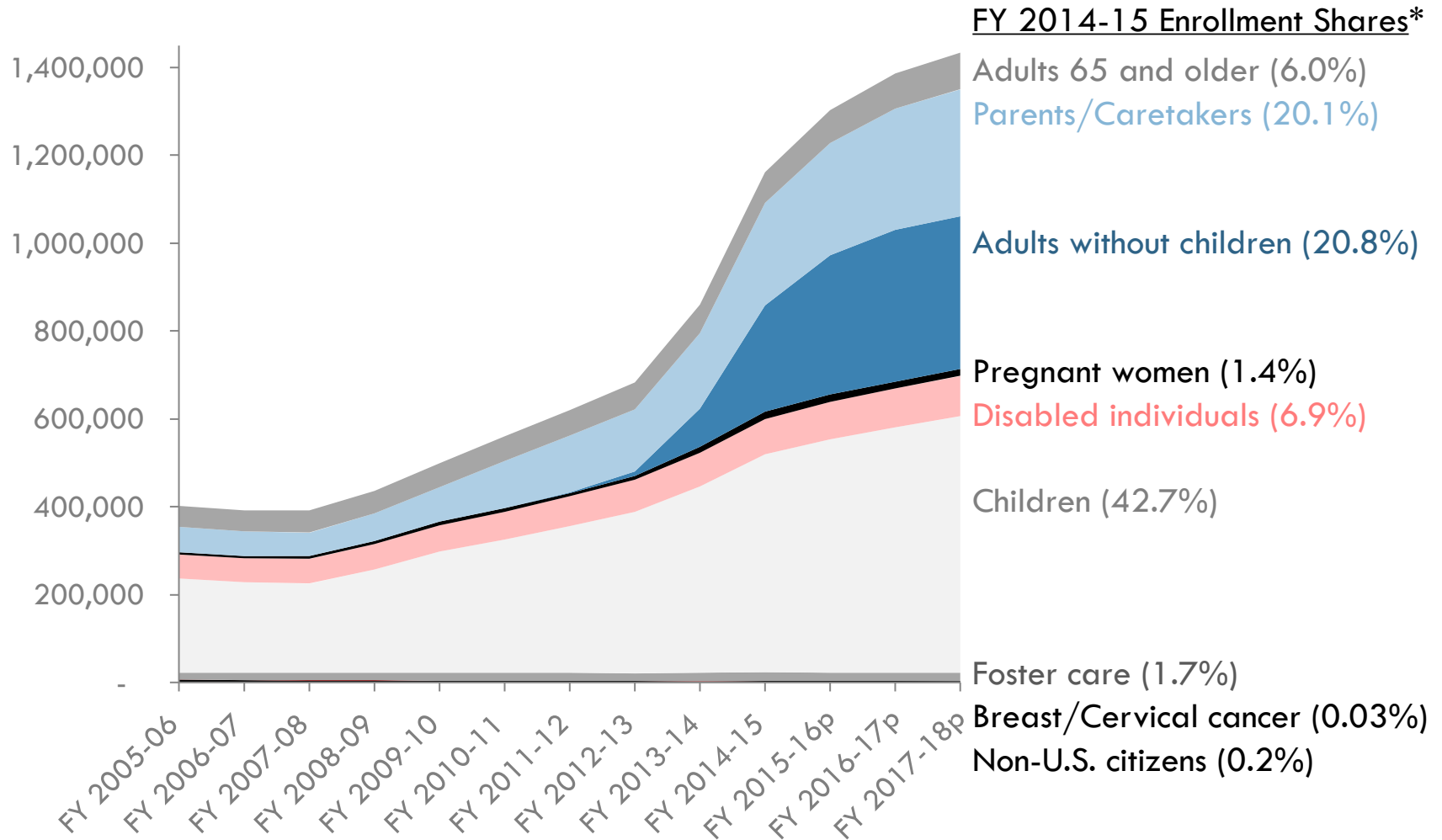
Billions of Dollars



Source: Joint Budget Committee Staff. p=Projection. *Amounts include supplemental payments to providers and financing mechanisms.

**FY 2014-15 expenditure shares by population shown in parentheses.

Medicaid Enrollment



Source: Colorado Department of Health Care Policy and Financing. February 2016 projections.

p=Projection. *FY 2014-15 enrollment shares shown in parenthesis.