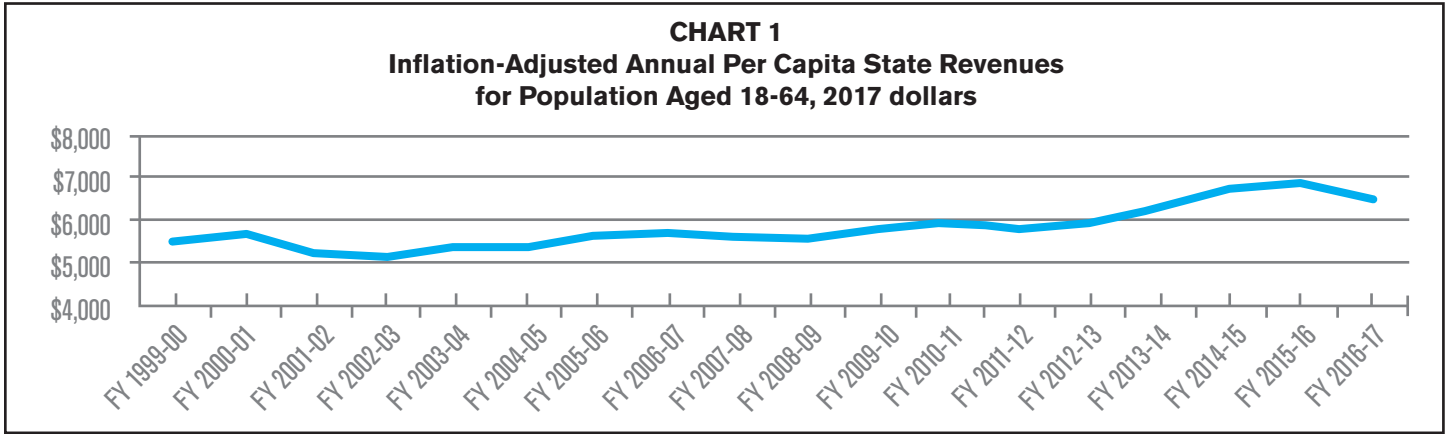




By Linda Gorman Health Care Policy Center Director, Independence Institute

A Thumbnail Guide to Colorado State Government's Spending Problem

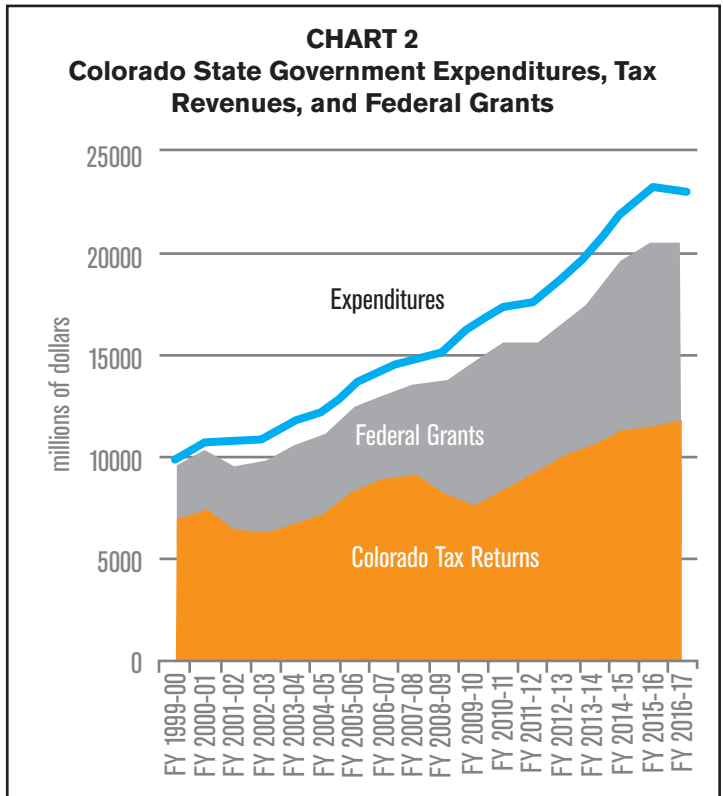


Colorado state government has a spending problem. Inflation-adjusted state tax revenues have risen by almost a quarter since fiscal year 1999-00 and per capita state revenues by people of working age are up by \$1,000 inflation-adjusted extra dollars. Still, spending generally has risen faster than revenues.

Unfunded pension liabilities were estimated to be \$10.3 billion in FY2016-17. The Office of the State Comptroller cites this as the primary cause of the decline in Colorado's net position from FY2015-16. Net pension liabilities rose from \$7.6 billion to \$10.3 billion.¹ The state's "business activities," primarily higher education, the Lottery, and unemployment insurance, also contributed to the decline, with spending exceeding revenues by \$365 million. Chart 2 shows how inflation-adjusted spending has compared with inflation-adjusted tax revenues since FY1999-2000.

Unlike the federal government, which switched to a defined contribution plan for new employees in 1987, Colorado's state employee pension plan is still a defined benefit plan. Defined contribution plans give employees money now that they can save for retirement. Defined benefit plans promise to pay future retirement benefits out of future cash flows.

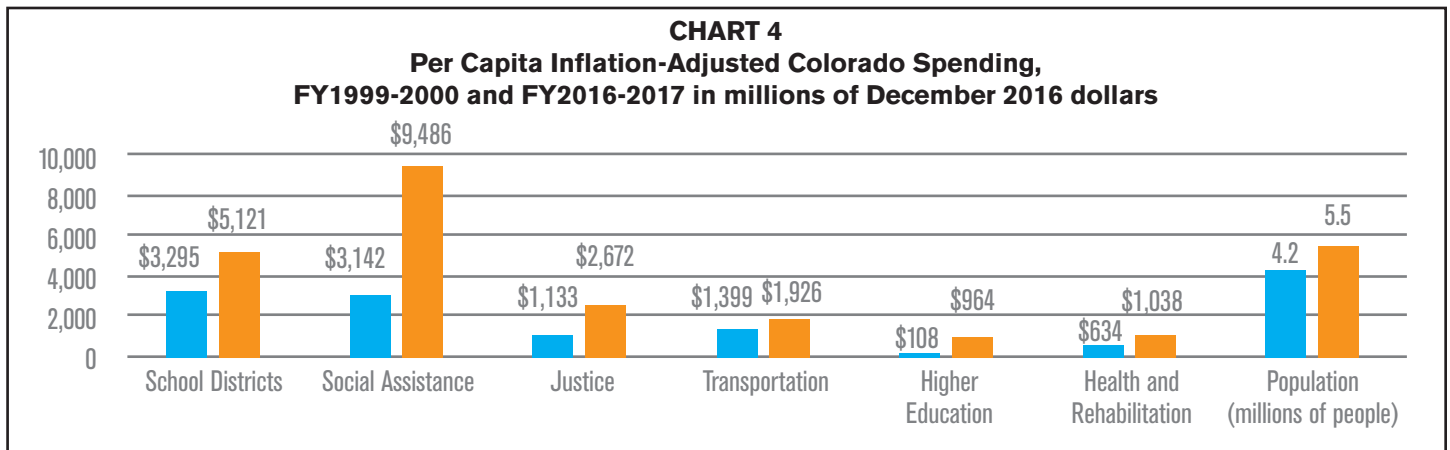
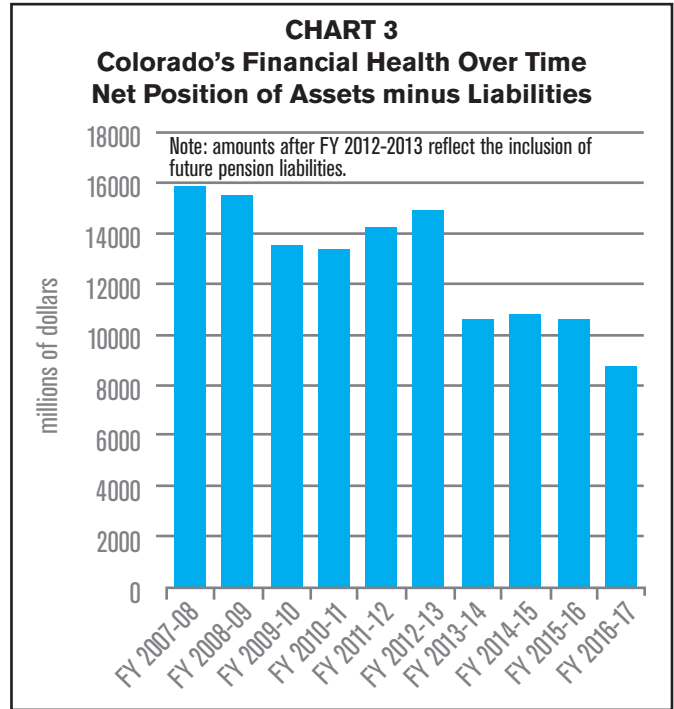
The state's net position, a financial health measure roughly equivalent to state assets minus state liabilities, has dropped from more than \$10.5 billion to just under \$8.5 billion. The drop in net position after FY2012-13 shown in Chart 3 reflects the size of the state's previously unstated exposure to unfunded pensions. To fund existing pension liabilities, Colorado state government would have to set aside \$10.3 billion now, almost half of FY2016-17 tax revenues.



Voters added Colorado's Taxpayer's Bill of Rights Amendment (TABOR) to the Colorado Constitution in 1992. While TABOR has been helpful in putting a brake on spending increases, state government has successfully reduced its impact. In 2005, voters approved Referendum C. It authorized a reset of the TABOR excess spending limit. Since its inception, Referendum C has resulted in an estimated \$17 billion in additional state spending. In FY 2016-17, the state spent \$2.1 billion more under the Referendum C limit than it would have under the original TABOR limit. Pension liability continued to increase. Part of this increase has been enabled by increasing "fee" revenue rather than "tax" revenue and by moving revenue generating activities from the General Fund to TABOR exempt enterprise funds. In FY 2016-17, just \$12.9 billion of the state's total revenue of \$23.0 billion, about 56 percent, was subject to TABOR limits.

Between FY1999-2000 and FY2016-2017, inflation-adjusted spending through state agencies increased in every functional group of state government departments except natural resources. The largest percentage increases were in the parts of the Department of Education fo-

cus on higher education, where spending was up 793 percent, and in Departments devoted to social assistance, where spending was up 202 percent. State spending on school districts increased 55 percent, just behind spending on health and rehabilitation at 64 percent. Population increased by just under 25 percent.



¹ Colorado Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2017, p. 28.
² GASB Statement No. 68 required the state to include pension liabilities in net position in FY 2014-15. The state restated the FY 2013-14 results in the FY 2014-15 CAFR.
³ Colorado Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, p. 88.
⁴ General Fund payments for higher education include money for student financial aid, occupational education, and job training. CAFR, 2016-17, p. 158.

⁵ Health and Rehabilitation includes spending on the Department of Public Health and Environment, and part of the Department of Human Services. Spending on Social Assistance includes spending in the Department of Human Services, the Department of Military and Veterans' Affairs, and the Department of Health Care Policy and Financing.
⁶ These spending estimates are from the state's government-wide Statement of Activities and do not include changes in lease, bond, and other debt liability. Colorado Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, p. 55.

