

Good News - Colorado's Economy is Recovering

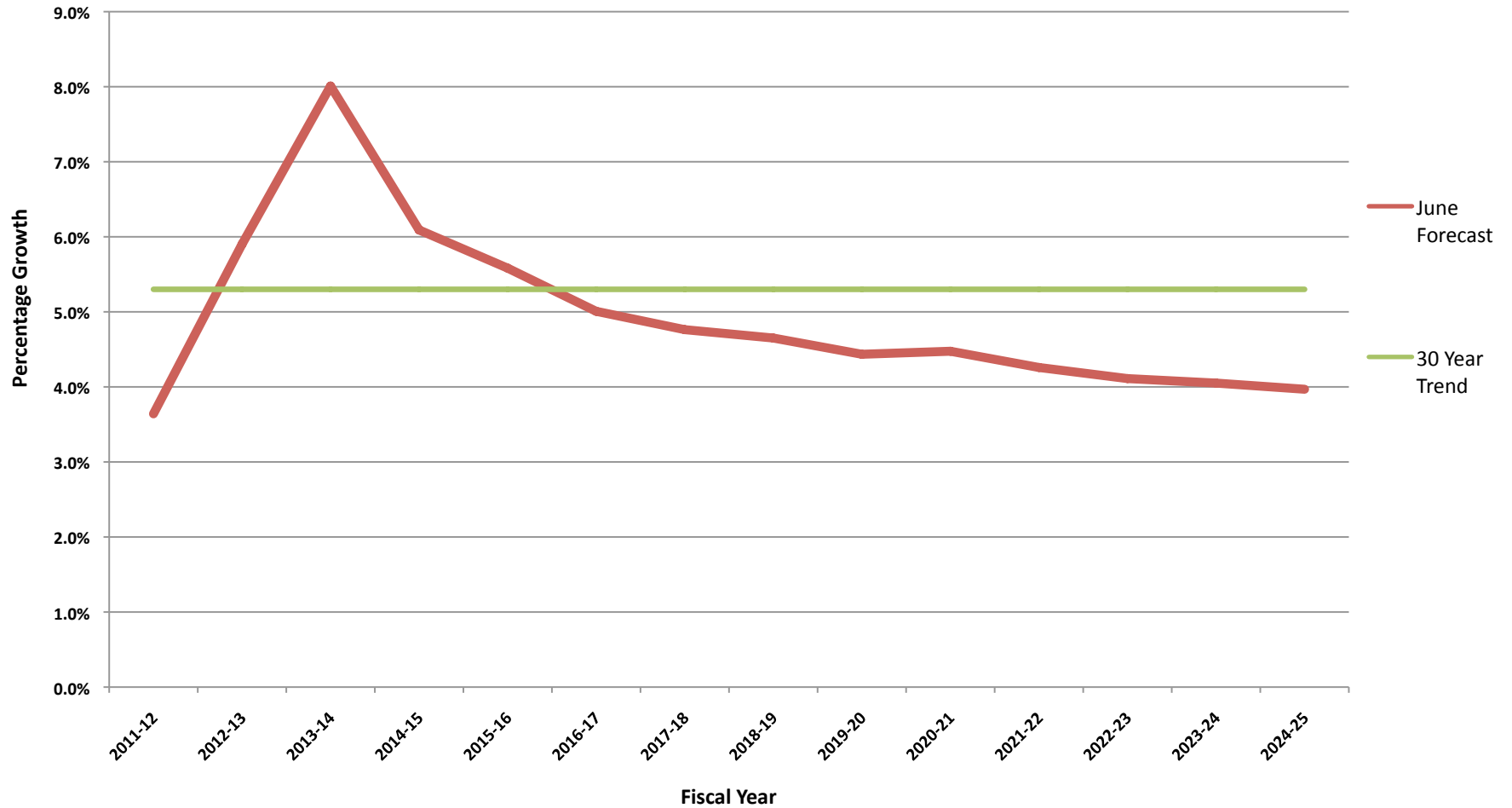
Employment Recovery



Source: CBEF state macroeconomic model

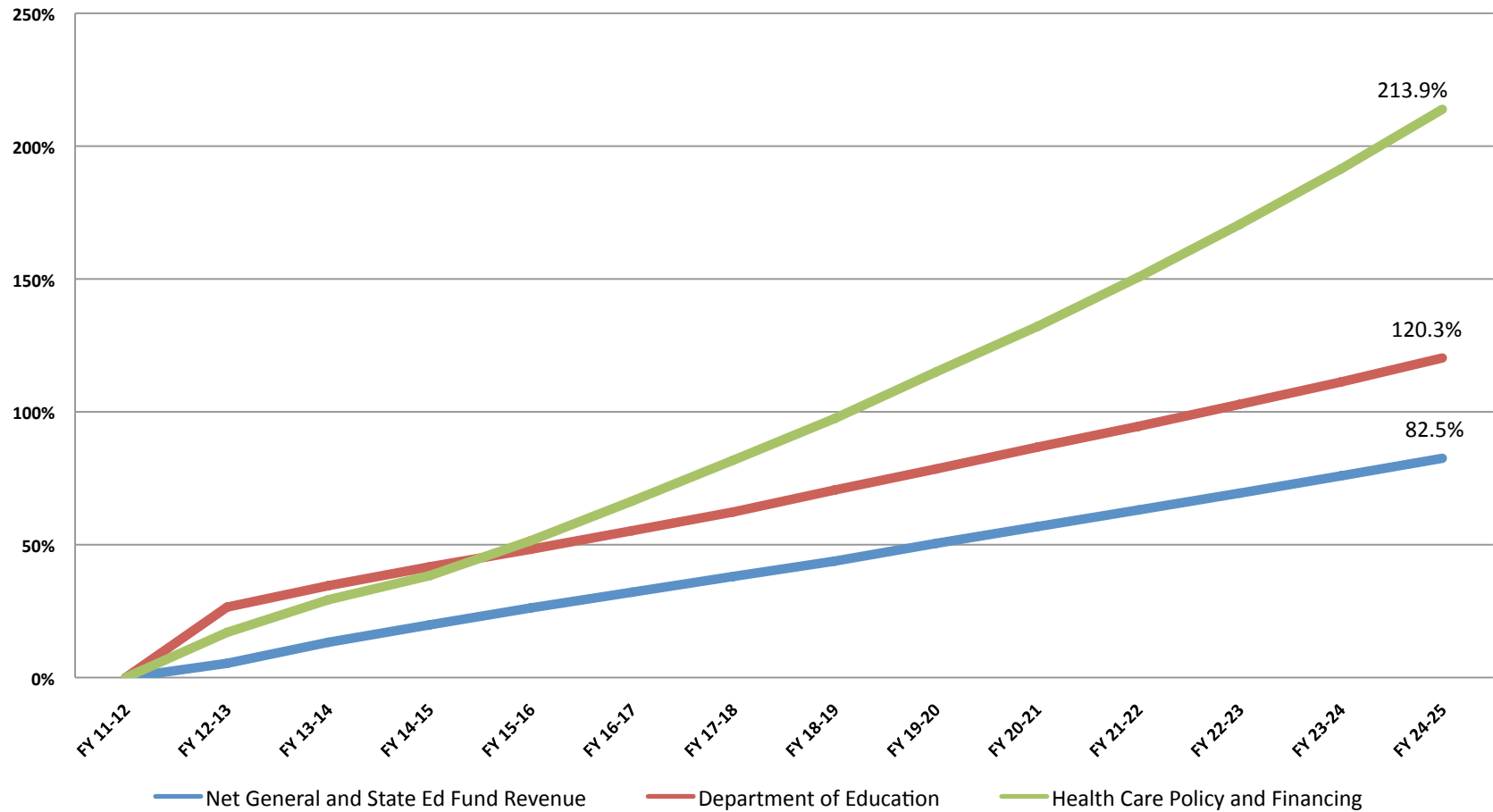
More Good News - Strong General and State Education Fund Growth

Growth Comparison - June and January General and State Education Fund Forecasts



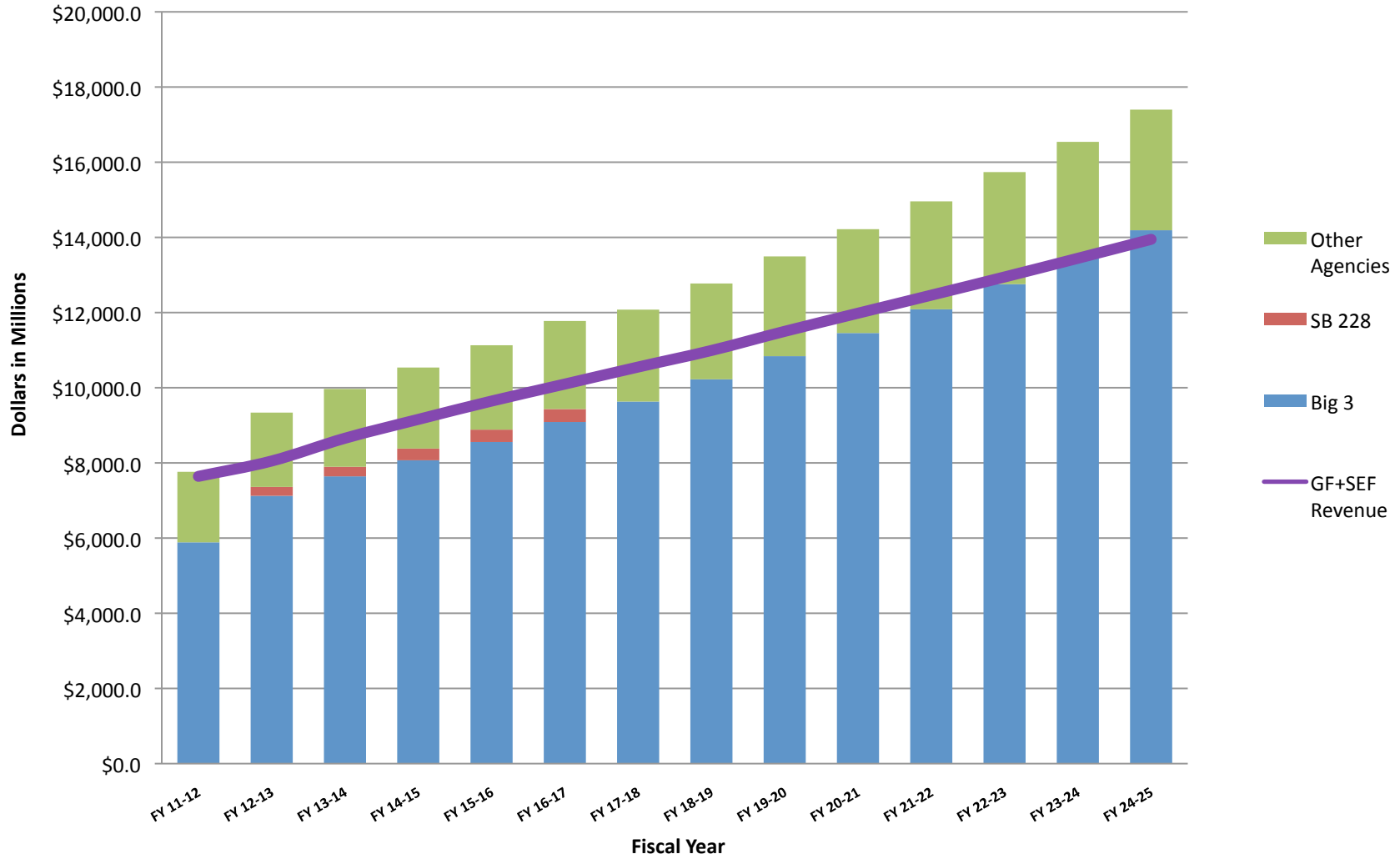
But Colorado's Structural Budget Problems Will Worsen

Cumulative Growth Rates From FY 11-12 through FY 24-25 for General and State Education Fund Revenues and Departments of Education and Health Care Policy and Financing



But Due to Medicaid and K-12 Education Forecasts, the Budget Picture Worsens

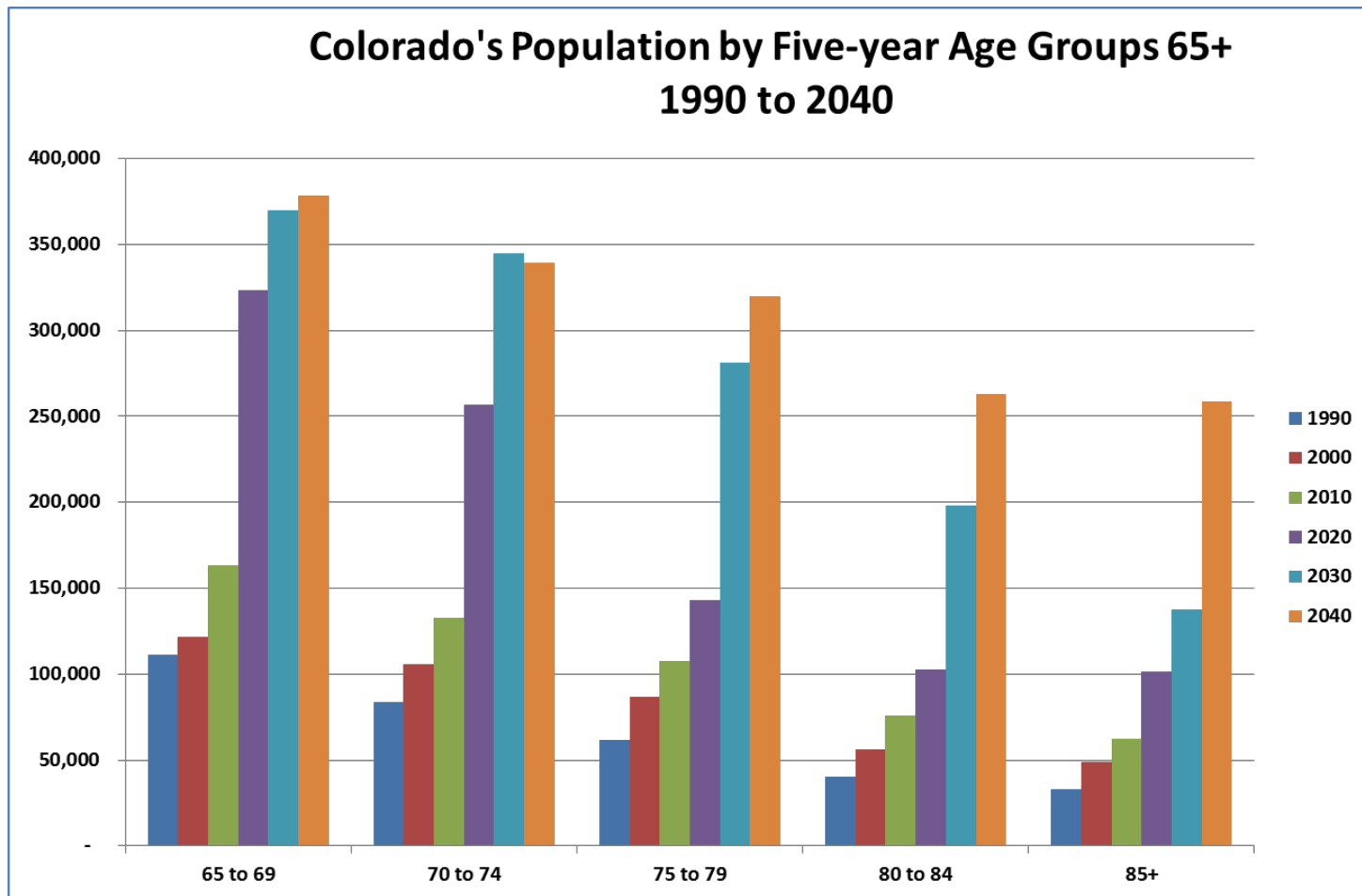
Comparison of General and State Education Fund Revenue with Expenditures FY 11-12 through FY 2024-25



Diagnosis: What is Happening?

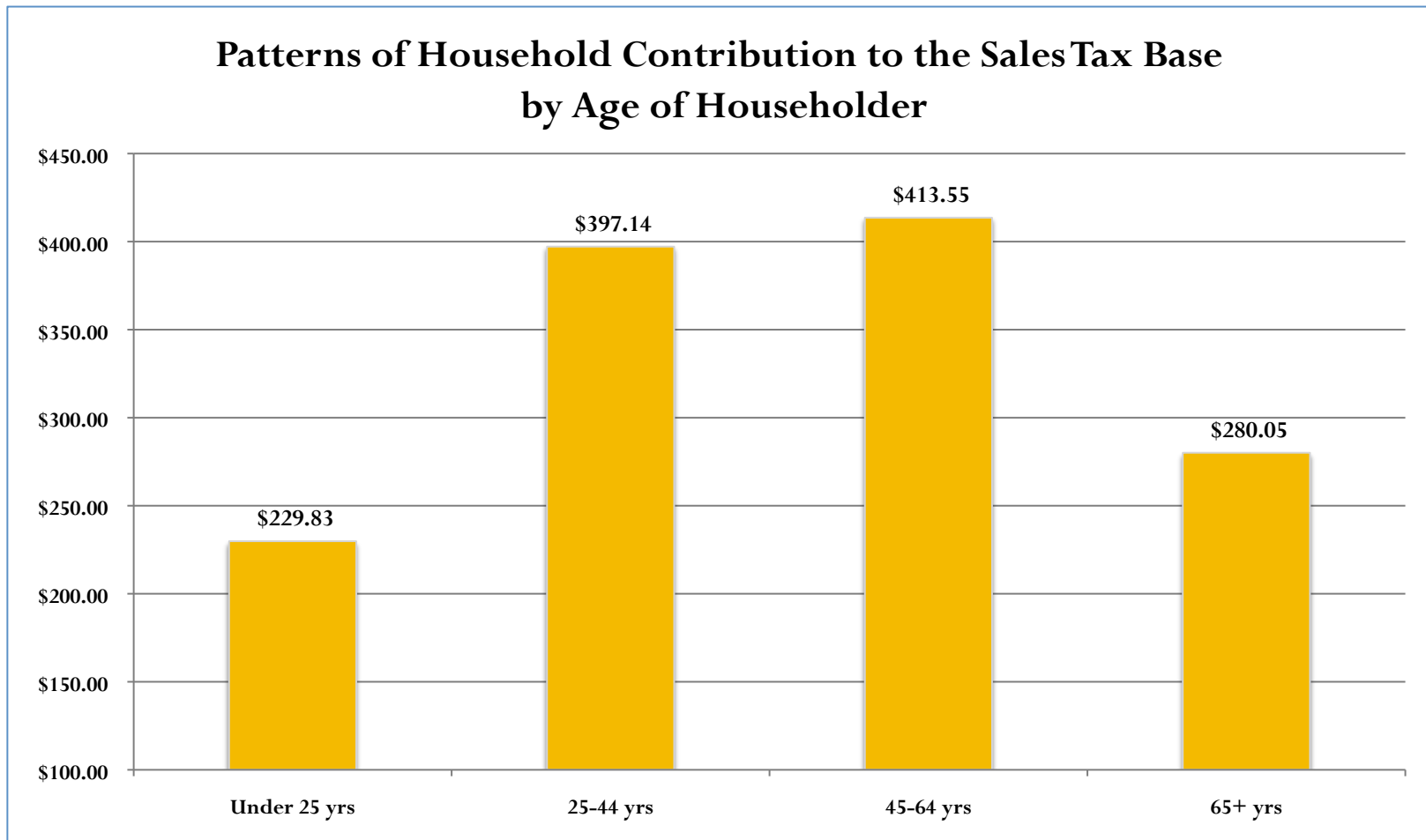
- Structural and demographic changes will affect revenue
 - Aging baby boom population
 - Changing economy
 - Tax system features
- Medicaid growing at 1.7 times revenue
 - Age Demographics
 - Medical Inflation
- System being used to pay for the local share of K-12 education isn't keeping up with spending drivers
 - Leakage in local property tax
 - State required to “backfill” the local shortfall

Baby Boomers in Retirement Will Significantly Impact Medicaid Costs



Source: Colorado Demographer's Office

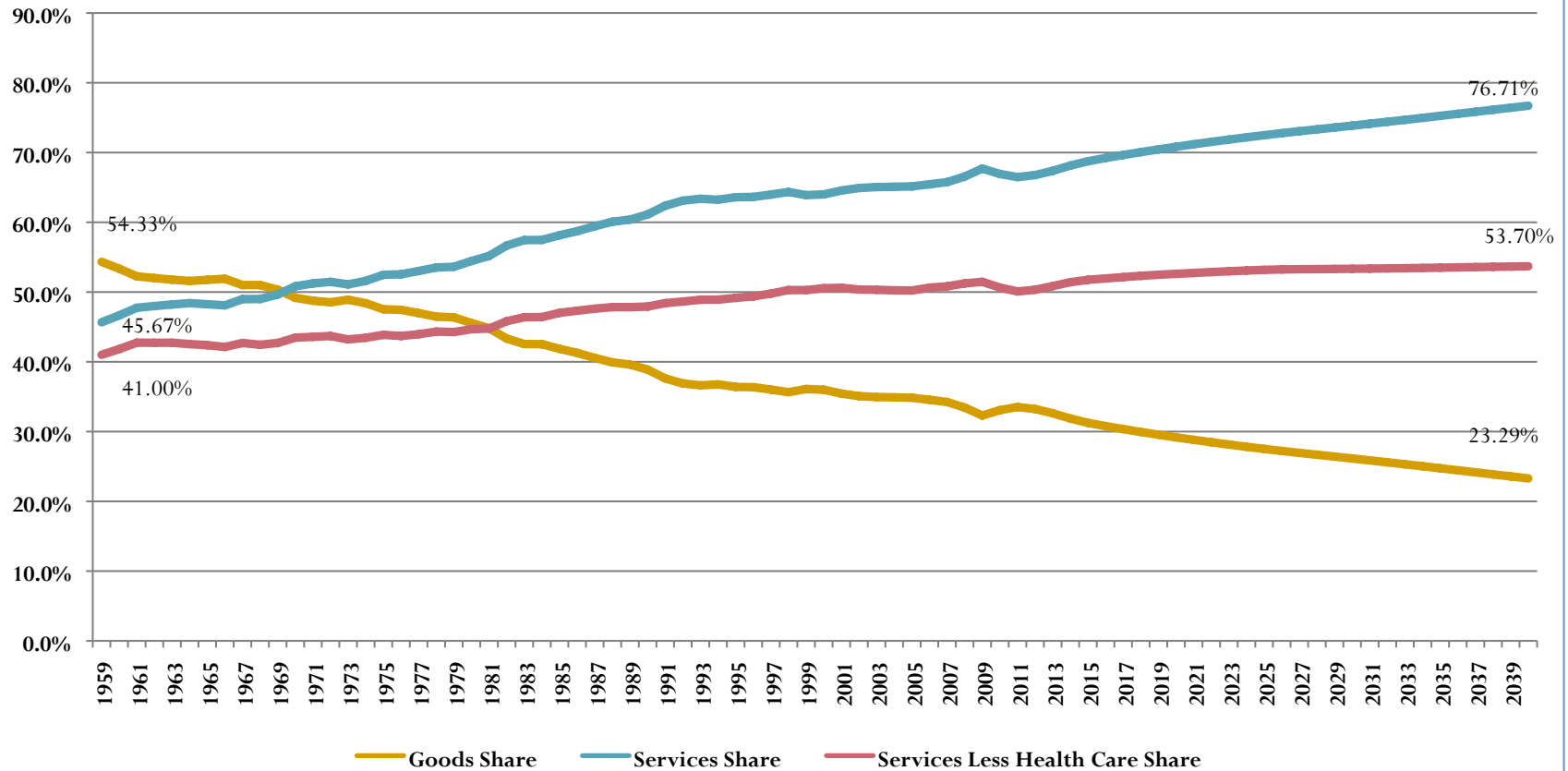
Aging Affects Revenue



Source: Consumer Expenditure Survey, BLS

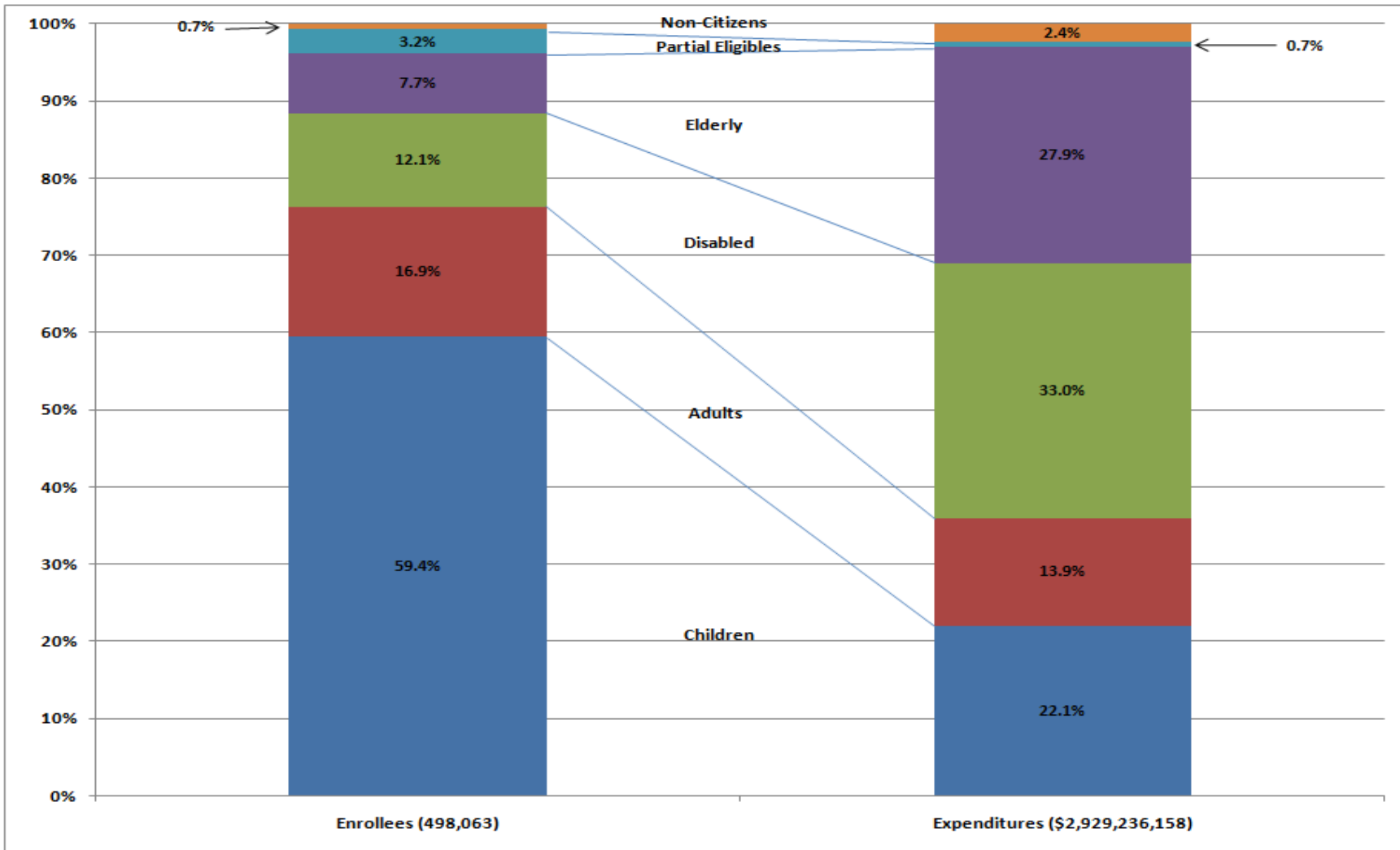
The Economy is Changing

Personal Consumption Expenditures for Goods and Services as a Share of Total: U.S. History and Forecast



Source: Moody's Economy.com

Aged Care Represents Disproportionate Share of Medicaid Cost (FY 10 Data)



K-12 Local and State Shares: The Problem Illustrated

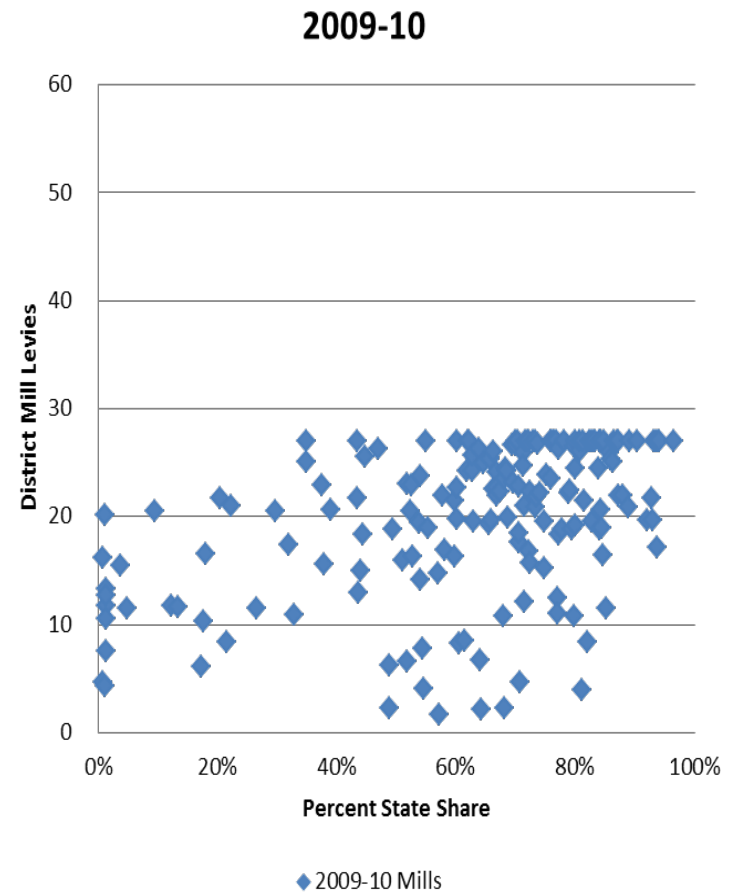
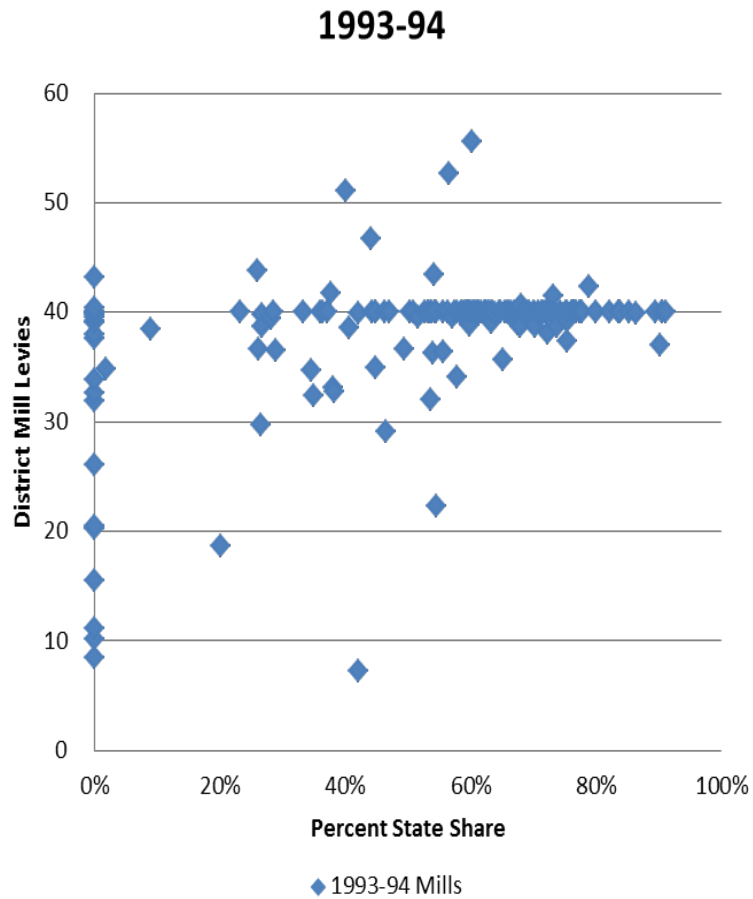
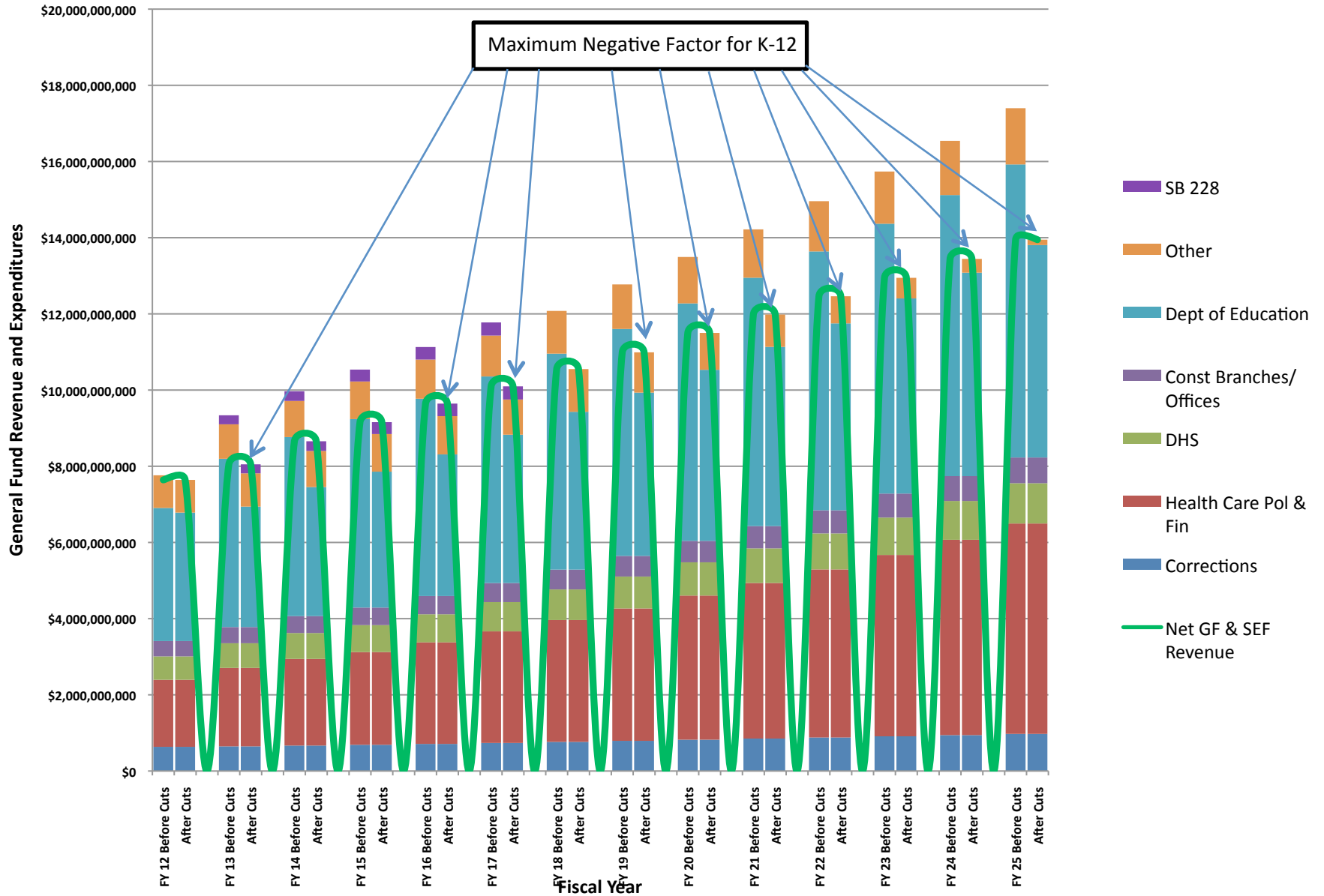


Illustration: How Could the Gap be Closed through Cuts?

- Protect receipt of federal funds
 - Health Care Policy and Financing
 - Human Services
- Fund the three constitutionally required branches of government
- Fund the constitutionally created offices within the executive branch
 - Attorney General
 - Governor
 - State Treasurer
- Fund the Department of Corrections
- Cut K-12 first by cutting the school finance “factors”
- Cut the remaining 12 departments of state government as needed to balance the budget

This is How Such a Package of Cuts Would Look



Distribution of "Remaining" General Fund

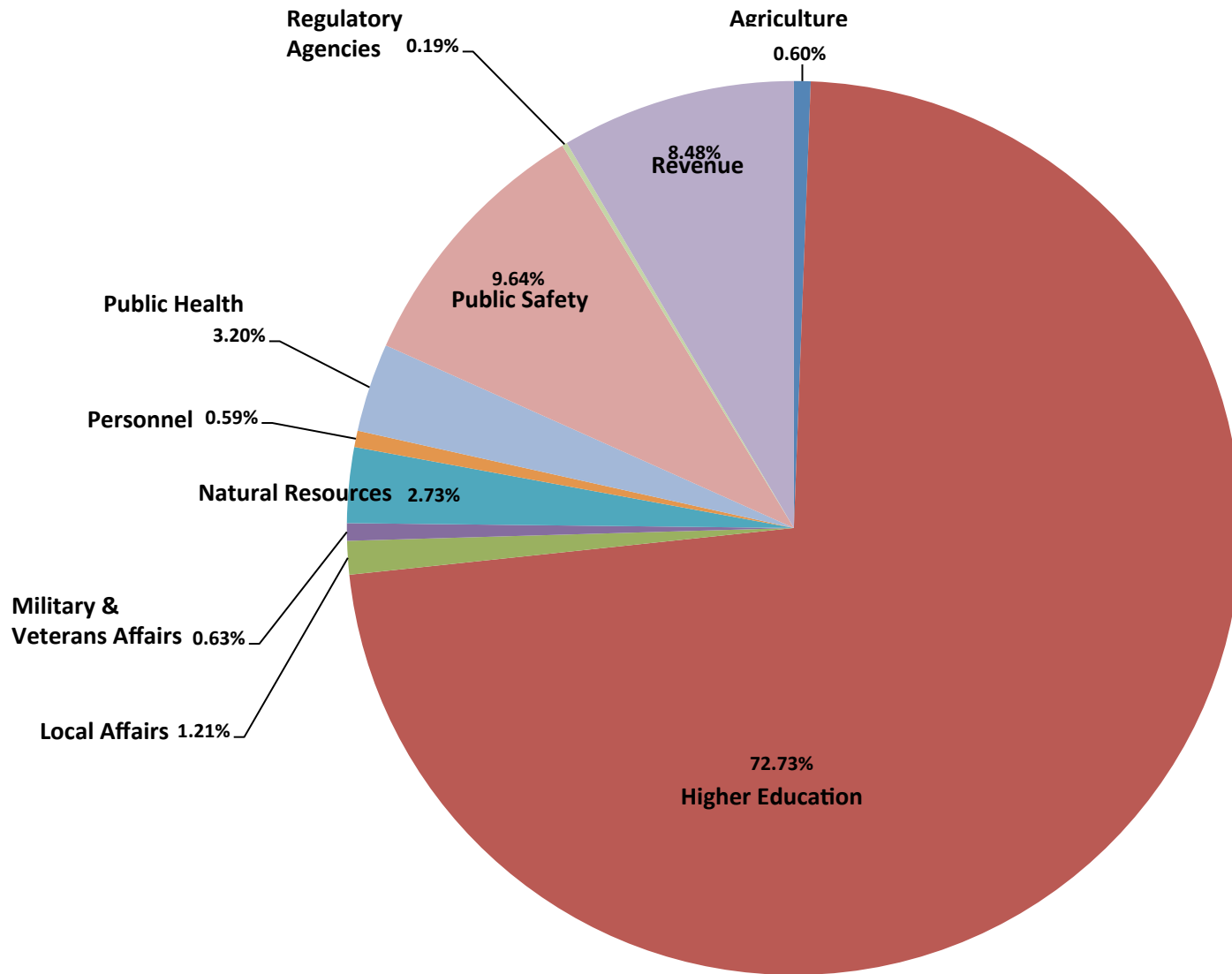


Illustration: Methodology of Closing the Gap through Taxes

- Elements of a Package
 - Add personal services to the sales tax base
 - Levy property taxes for schools with a statewide mill levy
 - Phase statewide levy in for full implementation by FY 2024-25
 - Reduce state share from 63.2% to 60% over the phase-in period
 - Restore four graduated income tax brackets
 - Index the brackets to prevent “bracket creep”
 - Tax first \$50,000 of income (\$0 to \$50,000) at 4%
 - Tax next \$50,000 of income (\$50,000 to \$100,000) at 4.7%
 - Tax next \$100,000 of income (\$100,000 to \$200,000) at 5.4%
 - Tax income above \$200,000 at 6.1%

This is How Such a Package of Taxes Would Look

