



AIMING FOR THE MIDDLE: Benchmarks for Colorado's Future June 20, 2007

INTRODUCTION

Colorado is blessed with natural abundance. The majestic Rocky mountains, a mild sunny climate, fertile soil, and abundant oil, gas, coal and other extractable resources. The natural bounty anchors a strong economy. It attracts tourists, companies and residents alike. Like all of the Rocky Mountain west, Colorado's population has grown dramatically over the past twenty years with projections all pointing toward more growth in the next twenty.

Economic growth brings an improved standard of living. While there is a healthy debate about the rate and type of growth occurring in Colorado, few disagree with a goal of continued economic growth.

Increasingly the Colorado community recognizes that we cannot just rely on our natural environment to support our economy. The clear message from business leaders is that a vital private sector can't exist without a functioning and effective public sector partner. More and more, Coloradans have come to realize that the private sector cannot do what it does without the public and non profit sectors to fill the gaps--to do the things the private sector won't or cannot do efficiently.

Colorado, with its cultural heritage of rugged individualism, identifies with a small government. That proclivity has resulted in a tangle of fiscal policies that complicate decision making and have resulted in a public sector that is identified with low levels of public services.

Recent history indicates that Coloradoans, however, are not averse to supporting public services. Passage of Referendum C in 2005, Amendment 23 in 2000 and the Amendment 35 in 2004 , T-REX in 2000 are all examples of the voters authorizing increases in services provided by the public sector. The voter approved spending increases were stop gap measures to avoid significant additional cuts in public services. Even with the passage of these spending measures, Colorado ranks close to the bottom among states in spending on important public services and in tax burden on its citizens.

This analysis will document how the state compares to other states in funding for vital public services and will estimate what it would cost to bring the state of Colorado to the middle of states in funding for education, higher education, health care and transportation. AIMING FOR THE MIDDLE is not necessarily a sufficiently high goal for the state. Many citizens believe settling for average in our public school systems, our universities, our transportation infrastructure and our health care system will not provide the impetus needed to retain our history of strong economic growth, particularly because we are starting so low. AIMING FOR THE MIDDLE merely sets a benchmark for the residents of the state to continue a dialogue on what kind of a future they want for the state. It is one tool to measure where we are in providing public services and hopefully will add to the discussion of where we want to be as a state.

OVERVIEW OF THE ANALYSIS

This analysis looks at how much more money the state would have to spend to reach the national average on spending on an array of important state services, like K-12 education, Medicaid, Higher Education and Highways. There are many methods to measure and compare spending across states. There are also lots of data and ways of compiling data. For this report we have chosen to always include two ways of comparing spending: state spending per capita and state spending per \$1000 of personal income. For computing these comparisons, in all cases except where noted, the spending data comes from the U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State*.¹ The population data is from the Census Bureau Population estimates,² and the income data is from the Bureau of Economic Analysis, Annual State Personal Income series.³

In some of the particular program areas, we have included alternative methods of measuring spending. These alternatives are included because experts in the areas have suggested alternative measures that they feel more accurately describe the state funding picture. Each section discussed the additional comparison analysis in more detail.

It is critical to note that the Colorado Fiscal Policy Institute is not suggesting that funding these services at the national average is the right goal for Colorado. This analysis is provided to support the public debate about what the right level of funding is for our state. In Colorado, more so than in any other state in the country, voters play a primary role as tax policy makers. As such, voters need access to comprehensive tax and spending data. We believe comparing ourselves to our peer states is a critical piece of information that can provide valuable insight for voters.

Finally, this analysis does not, in most cases, include local spending. Local governments in Colorado collect and spend a very high percentage of public dollars. In fact, according to the Center for Tax Policy,⁴ Colorado was one of only four states in which the state government generated less tax revenue than the local governments. While Colorado does rely heavily on local revenue to support public spending, the state and local spending combined still ranks below the national average in per capita (44th) and per \$1000 of personal income (31st).⁵ This analysis focuses on state spending component

because for many of the services discussed here the state is a dominant partner in funding.

Total Spending

The US Bureau of Census reports on state spending in its State Government Finance Data report⁶. In this analysis, the Bureau uses data from records obtained directly from the state offices responsible for auditing, budgeting, or developing periodic financial information.

Using data from the 2005 version of that report, Colorado ranked 44th in per capita spending. Colorado’s per capita amount (\$4,024.96) was \$1,030.84 less than the state ranked 25th and \$934.32 below the national per capita amount. If Colorado were to increase its spending to the national average, it would have spent \$3,311.342,880⁷ more in FY 2005.

Total State Expenditures	Rank	State Spending Required to Reach US Average⁸	State Spending Required to Equal Spending of 25th State⁹
Expenditures per capita US Census, State Government Finance Data Report, 2005	44	\$3.31B	\$3.653B
Expenditures per \$1000 of Personal Income US Census, State Government Finance Data Report, 2005	49	\$4.918B	\$6.501B

If we add the totals needed to reach the national average in K-12 schools, Medicaid, higher education and highways, the total needed to get to the national average is \$2.273 billion annually.

Elementary and Secondary School Spending

Colorado has 178 school districts ranging in size from under 100 to over 86,000. A free public education is required by the state constitution and the legislature is mandated to provide for the maintenance of a thorough and uniform system of free public schools throughout the state, Constitutional mandate (Art IX section 2). The financing of that system of free public schools has traditionally been the shared responsibility of the state and local school districts. The school districts raise revenue primarily through local property taxes and the state share is raised through general taxes like income and sales.

In 1992, the local school districts shouldered roughly 55% of the burden of funding the state’s elementary and secondary schools. A variety of tax and fiscal limitations, including the 1982 Gallagher constitutional limitation, the 1992 TABOR constitutional limitation, and the 1994 school finance statute, have resulted in a shift in the responsibility for supporting schools. In 2005, the state provided over 64% of the costs of K-12 schools in the state.

In FY 2000, voters adopted Amendment 23 to increase total funding for schools back to the level they were in 1988. Amendment 23 requires that per pupil funding increase at a minimum of inflation (measured by CPI), plus 1% for 10 years and then by at least CPI each year starting in 2011. Even with the mandated Amendment 23 increases, funding for public schools in Colorado remains \$551 below the national average.¹⁰ This low level of funding is compounded by the fact that the state of Colorado does not include the costs of providing buildings and other capital in its support for local schools.

Using data from US Census’ Public Education Finances Report,¹¹ Colorado’s support for public schools lags behind other states. For example using FY 03-04 Elementary Secondary Revenue per capita (2003 pop) Colorado ranked 34th in per capita spending. Its per capita amount (\$1245.68) was \$89.78 less than the state ranked 25th and \$147.78 below the national per capita amount. If Colorado were to increase spending to the national average, it would have had to have spent over \$672 million more in FY 2004. Other measures put the Colorado rank at different place. For example, **if the US Census 03-04 Elementary Secondary Revenue/\$1000 of Personal income is used, Colorado ranks 49th and it would take \$1,524,070,888 to have the state spend at the national average. Colorado would need to increase State K-12 spending by \$672,490,756 to reach the national average in per capita spending.**

K-12 Spending Data 2004 (US Census 03-04)	Rank	State Spending Required to Reach US Average	State Spending Required to Equal Spending of 25th State
US Census 03-04 Elementary Secondary Revenue/\$1000 of Personal income	49	\$1.524B	\$1.434B
Elementary Secondary Revenue per capita (2003 pop)	34	\$672.5M	\$408.6M

The Colorado Department of Education prepares its own rankings. Using the CDE current per student spending ranking for 04-05, the state would need to spend an additional \$623,785,692 annual to spend at the national average.

(A comparison of a variety of education rankings is included in Appendix 2)

Medicaid Spending

Medicaid is important because it provides health care to low income, uninsured Coloradans. Providing public health care benefits individuals as well as the state economy as a whole. Increasingly business leaders in Colorado are calling for more reasonable levels of publicly funded health care because without it, private health insurance costs are skyrocketing making it more difficult for our employers to provide health insurance to their workers. For example, it costs employers more to provide health insurance for workers in Colorado than in all but 12 other states.¹²

Colorado currently ranks 47th in coverage of Medicaid for its residents.¹³ Only about 11% of the state's population qualifies to for Medicaid in Colorado.¹⁴ There are two primary reasons for this low level of coverage: very low eligibility standards and relatively high personal income in the state. Regardless of the reason, the low level of Medicaid coverage results in higher than average rates of uninsured residents. High numbers of uninsured translates to higher costs for private health insurance since the private market must pay for the uncompensated care that often occurs when patients are not covered by health insurance.

Another unique characteristic of Colorado's Medicaid program is the limited number of services that are covered. Medicaid is jointly funded by the federal and state government. The federal government requires states to provide coverage for a basic set of services in order to qualify for the federal matching funds. States have the option to provide coverage for additional services not required by the federal government. Colorado has opted to cover only a few additional services. One of the optional services in Colorado is long term care. In fact, a majority of the state's Medicaid expenditures support long term care services for the state's elderly population.

Colorado would need to increase State Medicaid spending by \$2.224 billion to reach the US average in spending per \$1000 of personal income or \$993.2 million to reach the national average in per capita Medicaid spending.¹⁵

Medicaid Spending Measure 2004 (Medicaid Data—National Association of Budget Officers; personal income data- Bureau of Economic Analysis)	Rank	State Spending Required to Reach US Average	State Spending Required to Equal Spending of 25th State
2004 Medicaid expenditures per \$1000 of personal income	49	\$2.224 B	\$951 M
2004 Medicaid Expenditure per capita	47	\$993 M	\$784 M

Another program offered in conjunction with Medicaid is the Child Health Plan Plus¹⁶ or CHP+. In Colorado CHP+ currently provides insurance to 56,000 kids, leaving 180,000 children without health insurance.¹⁷ **Colorado would need to increase annual state CHP+ spending by \$7.7 million to reach the US average in spending per \$1000 of personal income or \$13.1 million to reach the national average in per capita CHP+ spending.**¹⁸

CHP+ Spending Measure 2004 (Medicaid Data—National Association of Budget Officers; personal income data-Bureau of Economic Analysis)	Rank	State Spending Required to Reach US Average	State Spending Required to Equal Spending of 25th State
CHP+ spending per \$1000 of personal income	36	\$7.7 m	\$10.3m
CHP+ spending per capita	32	\$13.1m	\$10.2m

For many in Colorado, the goal of reaching average spending for CHP+ is not nearly high enough. A political consensus has developed around providing health insurance coverage for all kids up to 300% of the poverty level in the state. The state cost of that proposal is estimated at \$65.3 million.¹⁹

Higher Education Spending

Business leaders recognize that the state is facing a crisis in funding for higher education. In several recent reports business leaders acknowledge Colorado can no longer rely on its past strategy of importing college graduates. As the economy generates high skilled jobs, the public higher education system must be equipped to help produce those workers. According to the Metro Denver Economic Development Corporation, “A knowledge-based economy cannot flourish without a public and private education system that consistently produces highly quality graduates with skills that offer the greatest potential for employment.”²⁰

The old strategy of relying on our mountains and our minerals to support our economy is fast running out of fuel. As the Running on Empty Report issued by the business group Colorado Succeeds says, “Clearly, Colorado’s institutions of higher education play a critical role in maintaining our state’s competitive advantage of a highly educated workforce. They also incubate new research-spawned industries, most recently in the fields of biotechnology and energy technology. If our higher education system continues to wither on the vine financially, all of Colorado will feel the effects.”²¹

Higher Education-State and Local Tax Appropriations University of Illinois GRAPEVINE 2007 ²²	Rank	State Spending Required to Reach US Average	State Spending Required to Equal Spending of 25th State
Appropriations of State a Tax funds per \$1000 of personal income	48	\$543.9M	\$578.8M
Appropriations of State Tax funds per capita	48	\$467.8M	\$474.4M

An alternative way to measure how Colorado compares is to use a peer analysis. The peer analysis approach is the measure of choice for higher education groups. A recent report, prepared for the Colorado Commission on Higher Education, compared funding for Colorado’s institutions of higher education with their peers in other states and found that it would take \$832 million annually in today’s dollars to match peer university funding.²³

Total Dollars Needed to Reach Peer Benchmark	
Type of Institution	Total Dollars Needed*
Community Colleges	\$102,352,256
4-Year	\$208,285,426
Research	\$521,612,073
Total	\$832,249,755

*In Constant Dollars

HIGHWAYS

Colorado’s transportation system is in a state of serious disrepair. Currently only about 60% of Colorado’s roadway surfaces on the state highway system are good/fair. Without new revenues to maintain the system, by 2030 that number will fall to 32%.²⁴ Current projections indicate our current level of investment in our roadways is costing us now and that the costs will increase in the future. A recent study found that, without increased transportation investments, the average driver will spend 53 hours in traffic congestion at an annual cost of about \$500 per driver. The same report suggests that the additional delays will cost Colorado businesses more than \$740 million in wasted time and fuel.²⁵

The estimates of the amount of money needed to support our transportation system into the future are huge. The Colorado Department of Transportation, based on an extensive public input process, estimates the 2030 shortfall in the system at \$163 billion. The revenue shortfall on the cost of sustaining the state system alone is \$65 billion.

For this analysis, the projected needs were not factored into the equation. Current per capita and spending per \$1000 of income does not reflect back logged needs or the amount it would take to get our stock up to par. This data simply compares Colorado’s state spending to the annual spending in other states. Even recognizing the impact of these underestimates of need, **Colorado would need to increase highway spending by \$262,478,061 to reach the US average in spending per \$1000 of personal income or \$139,363,186 to reach the national average in per capita spending.**

Highway Spending Data US Census 2005	Rank	State Spending Required to Reach US Average	State Spending Required to Equal Spending of 25th State
State Highway spending per \$1000 of personal income	44	\$262.7M	\$463.1M
State Highway Spending Per capita	39	\$139.4M	\$274.7M

CONCLUSION

Colorado currently invests a relatively small amount in public structures that support our economy and our way of life. We have survived and thrived despite our neglect of our school, university, health care and transportation systems, but increasingly we are warned that if we are to maintain our quality of life, we must change our course. Our neighbors and competitors are making the investments today that will reap the benefits tomorrow. We are not.

It is time to advance the public discussion about the price we pay for our current investment strategy. This dialogue on competing priorities and weighing of alternatives is critically important in Colorado, where voters have a unique role in policy making. The benchmarks articulated in Aiming for the Middle are designed to inform those discussions in a way that allows Coloradans to make meaningful comparisons to the commitments being made in other states.

One thing is clear: no one area of public investment is in worse or better shape than others. All these investments are critical to our future and all are significantly below other state’s levels.

So we have to ask ourselves: are we ready to do what we must to be competitive, to create the kind of community we all want? Are we prepared to renew our commitment to education, health care and transportation, even if we know it will require significant new dollars? The answers beg the question: What kind of Colorado do we really want?

¹ U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State*, State government amount column, 2004-05. <http://ftp2.census.gov/govs/estimate/05slsstab1a.xls>

² U.S. Census Bureau, Population Estimates, <http://www.census.gov/popest/estimates.php>

³ Bureau of Economic Analysis, Annual State Personal Income, <http://www.bea.gov/regional/spi/default.cfm?satable=summary>, 2005
<http://www.bea.gov/regional/spi/drill.cfm>

⁴ Center for Tax Policy, Taxpayer Report How Colorado Compares, 2006 Edition, Table VII, p.22.
http://www.centerfortaxpolicy.org/reports/How_Colorado_Compares.pdf

⁵ Op cit, Table 1, p. 6.

⁶ U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State*, State government amount column, 2004-05. <http://ftp2.census.gov/govs/estimate/05slsstab1a.xls>

⁷ This amount is the state's share (76%) of total spending. In Colorado, the other 24% is federal and local spending

⁸ See endnote 7.

⁹ See endnote 7.

¹⁰ Education Week, "Quality Counts" report, 2004.

¹¹ US Census Bureau, Public Education Finances Report, <http://ftp2.census.gov/govs/school/04f33pub.pdf>

¹² Morgan Quinto, Average Annual Family Coverage Health Insurance Premium per Enrolled Employee in 2003, 2006

¹³ Kaiser Family Foundation, Kaiser Statehealthfacts.com, Medicaid Enrollment as a Percentage of Total Population, 2004.

¹⁴ Op cit.

¹⁵ The ranking data used here is for Total Medicaid spending. Colorado's FMAP or matching rate is 50% so the total amount was reduced by 50% to arrive at the state only portion. Total spending was used because it the best measure of the comprehensiveness of a state's Medicaid program. For the purposes of this benchmarking report, the total size of the program was the most relevant comparison.

¹⁶ Children's Health Plan Plus is the name of the Colorado program funded with federal SCHIP (state children's health insurance program) dollars.

¹⁷ State of Colorado, HCPF April 2007 Expenditure Report, p.4.

¹⁸ The data used to compute this amount is total spending for SCHIP in all states. The Colorado portion contained in the table reflects the states share of total spending—65%. For SCHIP, all states have the same match rate.

¹⁹ Colorado Children's Campaign, SCHIP Reauthorization is Important to Colorado's Children, 2007 from data in Department of Health Care and Financing, Nov. 1 2006, Legislative Budget Request.

²⁰ Toward a More Competitive Colorado, Metro Denver Economic Development Corporation, Second Edition, 2006.

²¹ Colorado Succeeds, Running on Empty Report, 2006.

²² University of Illinois, EAF Foundation, Grapevine, 2007, http://www.grapevine.ilstu.edu/tables/pdf/table5_07.pdf . The Grapevine data reports on appropriated states funds for operating expenses which excluded sums for capital outlays and debt service and do not include federal or student funds.

²³ Colorado Commission on Higher Education, Colorado Higher Education Finance Study, prepared by The National Center for Higher Education Management Systems (NCHEMS), 2007.

²⁴ Moving Colorado, Vision for the Future, 2030 Statewide Transportation Plan, Colorado Department of Transportation, Feb 2005, p. 28

²⁵ Statewide Economic Benefits of Transportation Investment, Executive Summary, Report No. CDOT-2007-5, Colorado Department of Transportation, p. iii.

Appendix 1		Additional State Funds Needed	
TOTAL EXPENDITURES*		Rank	49
State spending per \$1000 of state personal income	US	\$144.30	
	25th	\$156.21	
	C0	\$107.30	
spending data--US Census (2005)	Amt below US average	\$37.00	\$4,918,136,125
personal income data BEA (2005)	Amount below 25th state	\$48.90	\$6,501,143,239
TOTAL EXPENDITURES*		Rank	44
State spending per capita	US	\$4,959.28	
	25th	\$5,055.80	
	C0	\$4,024.96	
population Census Bureau 2005	Amt below US average	\$934.32	\$3,311,342,880
	Amount below 25th state	\$1,030.84	\$3,653,395,317
K-12 EDUCATION		Rank	49
State spending per \$1000 of state personal income	US	\$50.53	
	25th	\$49.98	
	C0	\$41.27	
personal income data BEA (2004)	Amt below US average	\$9.26	\$1,524,070,888
Revenue data--Census Bureau 2004	Amount below 25th state	\$8.71	\$1,433,548,319
K-12 EDUCATION		Rank	34
State elementary and secondary revenue per capita	US	\$1,393.46	
	25th	\$1,335.46	
	C0	\$1,245.68	
population Census Bureau 2003	Amt below US average	\$147.78	\$672,490,756
Revenue data--Census Bureau 2004	Amount below 25th state	\$89.78	\$408,562,654
MEDICAID**		Rank	49
Spending per \$1000 of state personal income	US	\$41.53	
	25th	\$26.97	
	C0	\$16.10	
spending data--Kaiser Family Foundation	Amt below US average	\$25.43	\$2,224,381,943
personal income data BEA (2005)	Amount below 25th state	\$10.87	\$951,028,819
MEDICAID**		Rank	47
Spending per capita	US	\$1,029.78	
	25th	\$939.94	

	C0	\$603.81	
population Census Bureau 2005	Amt below US average	\$425.97	\$993,219,085
	Amount below 25th state	\$336.13	\$783,737,504
CHP+***	Rank	36	
Spending per \$1000 of state personal income	US	\$0.49	
	25th	\$0.54	
	C0	\$0.34	
Spending data NASBO 2004	Amt below US average	\$0.15	\$7,745,902
personal income data BEA (2003)	Amount below 25th state	\$0.20	\$10,327,869
CHP+***	Rank	32	
Spending per capita	US	\$20.34	
	25th	\$15.39	
	C0	\$11.69	
population Census Bureau 2004	Amt below US average	\$8.65	\$13,116,847
Spending data NASBO 2004	Amount below 25th state	\$3.70	\$5,612,818
HIGHER EDUCATION	Rank	48	
State spending per \$1000 of state personal income	US	\$6.59	
	25th	\$6.77	
	C0	\$3.67	
spending data--US Census (2005)	Amt below US average	\$2.92	\$543,873,292
personal income data BEA (2006)	Amount below 25th state	\$3.11	\$578,845,689
HIGHER EDUCATION	Rank	48	
State spending per capita	US	\$241.56	
	25th	\$242.94	
	C0	\$143.14	
population Census Bureau 2006	Amt below US average	\$98.42	\$467,840,789
	Amount below 25th state	\$99.79	\$474,358,980
HIGHWAYS	Rank	44	
State spending per \$1000 of state personal income	US	\$8.83	
	25th	\$9.97	
	C0	\$7.33	
spending data--US Census (2005)	Amt below US average	\$1.50	\$262,726,200
personal income data BEA (2005)	Amount below 25th state	\$2.65	\$463,127,599
HIGHWAYS	Rank	39	
State spending per capita	US	\$304.46	

	25th	\$333.48	
	C0	\$274.57	
population Census Bureau 2005	Amt below US average	\$29.89	\$139,363,185.57
	Amount below 25th state	\$58.91	\$274,702,028.42

* The State's share (76%) of total spending. In Colorado, the other 24% is federal and local spending.

** All Medicaid numbers in Column E are reduced by 50% to reflect just the state portion of total Medicaid spending.

*** All CHP+ numbers in Column E are reduced by 2/3 to reflect just the state portion of total spending.

APPENDIX 2

SOURCE			Student count/total PI	Amount needed to get to national average
	Rank	37		
	US	8041		
	25th	8123		
	CO	7490	757668	
Ed Week 2003 PPE adjusted for regional difference	25th difference	633		\$479,603,844
	US difference	551		\$417,475,068
	US	8618		
	25th	na		
CDE Current per student spending 04-05	CO	7819	780708	
	US difference	799		\$623,785,692
	US	8971		
	25th	na		
CDE State/Local Revenue per Student 04-05	CO	7414	780708	
		1557		\$1,215,562,356
	Rank	49		
	US	50.53	164,586,489	
	25th	49.98		
US Census 03-04 Elementary Secondary Revenue/\$1000 of Personal income	CO	41.27		
	25th difference	8.71		\$1,433,548,319
	US difference	9.26		\$1,524,070,888
	Rank	47		
	US	43.68		
	25th	43.25		
US Census 03-04 Elementary Secondary Current Spending/\$1000 of Personal income	CO	35.74	164,586,489	
	25th difference	7.51		\$1,236,044,532
	US difference	7.94		\$1,306,816,723
	Rank	33		
	US	9660		
	25th	9283		
	CO	8568	766657	
US Census 03-04 Elementary Secondary Revenue	25th difference	715		\$548,159,755
	US difference	1092		\$837,189,444
	Rank	32		
	US	8287		
	25th	7763		
	CO	7412	766657	
US Census 03-04 Elementary Secondary Current Spending	25th difference	351		\$269,096,607
	US difference	875		\$670,824,875
	Rank	34		
	US	1393.461		\$672,490,756
	25th	1335.463		\$408,562,654
US Census 03-04 Elementary Secondary Revenue per capita (2003 pop)	CO	1245.683	4,550,688	
	25th difference	\$89.78		
	US difference	\$147.78		