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COLORADO BUDGET: HOW DID WE GET HERE?

AUTHOR: DJ SUMMERS

INTRODUCTION

Colorado's Joint Budget Committee is proposing an FY2026-27 budget that incorporates half a billion dollars worth of cuts to address a \$1.5 billion budget shortage. To shed light on the state's ongoing budget shortfalls, CSI aggregated past research pertinent to the current budget situation; specifically in four key areas: **Colorado Department of Health Care Policy and Financing growth, general legislative activity growth, general state spending growth, and general state government employment growth.**

This is not the first year in which Colorado has projected shortfalls, but it is the first in which the budget has been so drastically cut. The state's ongoing budget condition was not the result of one year's worth of black swan events, but the result of an ongoing set of government-level activity, employment, and spending growth patterns.

KEY POINTS

Colorado Department of Health Care Policy and Financing Spending Growth

- Between 2015 and 2025, HCPF spending grew by 101%, from \$8 billion to \$16 billion, while the rest of the state budget grew by just 64%.

General Legislative Activity Growth

- The growth of Colorado's legislative output since 2012 is 56%—4th-highest in the country.
- The number of statewide ballot questions put before voters, including citizen initiatives and referred measures, quadrupled from 4 to 16 between 2012 and 2024.

General State Spending Growth

- Government spending has outpaced inflation and population growth in recent years - adjusted for inflation, total state government appropriations per Coloradan increased by 31% from FY06 to FY26, growing from \$5,580 to \$7,308.
- Health care has dominated budget growth in recent years while education's share has declined.
 - In the last 20 years, education funding increased by just 106%, while its share of the budget fell from 24% to 17%.

General State Government Employment Growth

- After improving slightly in 2023, Colorado's state budget competitiveness rank held steady at 36th, according to the CSI Free Enterprise Index.
 - This lower-than-average ranking in part stems from Colorado's recent job growth being relatively heavily government-centric. Between 2011 and 2024, Colorado dropped 15 spots in local and state government employment per capita compared to all other states.

HCPF SPENDING GROWTH

Colorado's budget growth has been deeply affected by the singular growth of the Department of Health Care Policy and Financing, or HCPF, which administers the state's Medicaid program. This growth was not primarily the result of medical inflation or Medicaid enrollment.

- Between 2015 and 2025, **HCPF spending grew by 101%, from \$8 billion to \$16 billion**, while the rest of the state budget grew **by just 64%**. Real health-care spending continued to grow even during post-pandemic declines in Medicaid enrollment.
- The agency's total spending growth over the last decade is higher than the combined growth rates of Medicaid enrollment and medical inflation. CSI estimates that **the agency could have spent as little as \$10.8 billion** in 2025 without underlying cost increases added by state and federal policy.
- Between 2018 and 2024, Medicaid enrollment **rose by 7.6%** while HCPF's total FTE employment and spending by the Executive Director's office rose by **72% and 101%, respectively**.
- HCPF faced criticism for its management of Medicaid eligibility redeterminations after pandemic-related protections expired in 2023. 48% of these redeterminations resulted in disenrollments in Colorado while the national average was 31%. Between 2023 and 2025, Medicaid coverage in Colorado fell from an all-time high down to nearly its 2015 level.
- There are opportunities to reform state programs, including RAC audits and the Hospital Transformation Program, to save state funds and reduce needless costs for providers in advance of federal Medicaid cuts.

GENERAL LEGISLATIVE ACTIVITY GROWTH

In the past 15 years, Colorado's state government has become markedly more active than it was, with increased levels of bill passage and increased levels of regulatory complexity. The Colorado General Assembly's activity level, though not a perfect proxy for government spending, does indicate a growing willingness to expand state government's regulatory footprint and administrative functions.

- The growth of Colorado's legislative output since 2012 is **56%—4th-highest in the country**.
 - > In 2025, the legislature passed 487 bills. Although this is a decrease from 2024's 527, it is still **23% more than the average** between 2012 and 2018.
- The average complexity of passed legislation has increased even faster than the count. 2025 bills were, on average, **26% more complex**, as measured by word counts in each year's Digest of Bills, than those passed between 2012 and 2018.
 - > The number of statewide ballot questions put before voters, including citizen initiatives and referred measures, **quadrupled from 4 to 16** between 2012 and 2024.

GENERAL STATE GOVERNMENT SPENDING GROWTH

The spending growth within HCPF, though especially pronounced, was not an aberration from the rest of Colorado's budget growth in the last 20 years. As the General Assembly has grown more willing to create more regulations, Colorado's budget has grown beyond both inflation and population growth.

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- Health care has dominated budget growth in recent years while education's share has declined.
 - > In the last 20 years, education funding **increased by just 106%**, while its share of the budget fell from **24% to 17%**.

GENERAL STATE GOVERNMENT EMPLOYMENT GROWTH

The growth in Colorado's legislative activity and government spending has led to more government workers per capita. This has been negatively impacting Colorado's relative competitiveness with other states in terms of state budget discipline.

- Colorado ranks **50th in the nation** for its debt service as a percentage of tax revenue.
- After improving slightly in 2023, Colorado's state budget competitiveness rank held steady at **36th**, according to the CSI Free Enterprise Index.
 - > This lower-than-average ranking in part stems from Colorado's recent job growth being relatively heavily government-centric. Between 2011 and 2024, Colorado dropped **15** spots in local and state government employment per capita compared to all other states.

PREVIOUS COLORADO BUDGET FORECASTS

Previous CSI research had underscored the problem of continued budget shortages in the 2025 legislative session. At that time, CSI projected that a national economic downturn could deepen Colorado's subsequent budget shortages.

- Using General Fund growth rates of 5.1% and 5.0% for fiscal years 2026 and 2027, and reported potential appropriations, the state is faced with a projected **\$1.2 billion** budget hole.
 - › Should the economy grow at rates consistent with the trends in employment growth and the unemployment rate, the budget hole gets larger, on the order of **\$2.8 billion** for fiscal years 2026 and 2027.
 - › The relatively optimistic revenue growth figures suggest nothing about the downside risk. Should the economy have a moderate downturn, the budget hole becomes much larger, on the order of **\$3.9 billion**, and that's before spending pressure is considered.
- Rather than kicking the can down the road and making future policymakers' jobs more difficult, current policymakers may want to slow spending growth in certain areas.