

Medicaid overspending headed for budget cliff

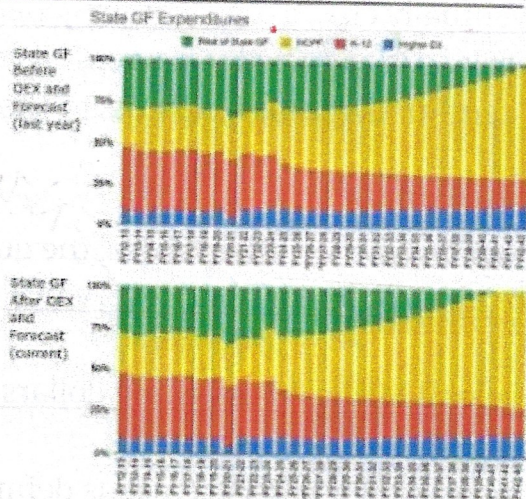
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Colorado officials on Thursday heard stark warnings about the increasing budget strain from the Medicaid program, compelling one budget officer to say that, without tighter controls on overspending, the government-funded healthcare system could consume the entire state general fund in less than two decades.

Medicaid Crowds Out Other GF Spending

- Updated forecast and OEX puts the State on a quicker trajectory for Medicaid to crowd out other state spending.
- GF for Rest of State will reach zero three years earlier.
- Rest of State GF will decline 13% every year.



Without changes to how the Colorado handles Medicaid, no state money would go toward the next three largest agencies: K-12 education, higher education and corrections, which are almost 100% reliant on general-fund dollars, by 2043, members of the Medicaid commission were told.

Medicaid and the agency that runs the state program, the Department of Health Care Policy and Financing, are now the largest single item in the state budget, representing more than a third of the general fund portion.

General fund dollars come from corporate and individual income taxes, as well as from sales and use taxes.

As it stands, the state overspent on Medicaid by \$158 million in the 2025-26 budget.

Estimates for future spending show the Department of Health Care Policy and Financing could overspend its 2026-27 Medicaid budget, which started on July 1, by \$443 million. And by 2027-28 budget, the overspending could reach almost \$1 billion.

The Colorado General Assembly created the Medicaid commission in the 2026 session. The panel includes the six members of the Joint Budget Committee.

Commission Chair Sen. Judy Amabile, D-Boulder, said policymakers will need to focus on immediate and long-term solutions, including how to fund Medicaid and deliver high-quality care.

Co-chair Rep. Kyle Brown, a Louisville Democrat, said the dire problems mean policymakers will have to choose the "least worst option."

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"This is not what I signed up for when I ran for office," he added.

Mark Ferrandino, director of the governor's Office of State Planning and Budgeting, presented the numbers lawmakers will face in next year's legislative session.

The state overspent its Medicaid budget in 2025-26 by \$157.9 million, Ferrandino told the commission. But this year's budget is worse: \$443 million over budget, not to mention an estimated \$918 million in 2027-28.

The six-member Joint Budget Committee will start working on the state's spending plan on Nov. 1, when Gov. Jared Polis presents his proposal for the next fiscal year.

Ferrandino cited utilization as the driver of the overspending — not enrollment. That spending has escalated since just before COVID, he explained, and it has grown at nearly double the rate of general fund revenue increases since 2021.

Revenue forecasts, which are expected to be presented to the Joint Budget Committee on Friday, show that without changes, Medicaid will eventually crowd out all other general fund spending by 2043.

Ferrandino noted that the Medicaid caseload is expected to decrease a year from now, when H.R. 1 bill — the federal budget that will require certain Medicaid recipients to show they meet work requirements — goes into effect.

Faster than other states

Colorado's Medicaid spending has grown faster than other states, the budget official added.

At this rate, Medicaid spending in Colorado will double about every five to six years — and that's not sustainable, he said.

At the same time, Colorado's share of federal Medicaid matching dollars is among the lowest in the country, Ferrandino explained.

The bottom line is that this dramatic increase, if it persists, means defunding other state agencies and bringing back the budget stabilization factor, a billion-dollar "debt" to K-12 education that took lawmakers 14 years to pay back.

Ferrandino said the governor's Nov. 1 budget will assume a growth rate for Medicaid at Taxpayer's Bill of Rights growth limits and that, he added, will mean significant reductions.

As to what Gov. Jared Polis will propose, Ferrandino said his office plans to reduce growth rates on long-term community health, behavioral health and drug costs.

Polis is also working with the National Governors Association to advocate at the federal level to reverse or change some of the policies that are driving the reductions, he said.

Colorado isn't alone in these problems. "Every state is seeing Medicaid become a larger and larger share of their general fund because behaviors are changing in how healthcare is delivered and how it is used," he said.

He admitted some of it is "our own doing," citing actions adopted during the COVID-19 pandemic. As a country, a lot of money was spent to build up the infrastructure to ensure governments had the capacity to deal with the pandemic, he said.

That capacity is in place — and people can use services at a higher rate, he said. — Note

"That's a good thing, but that has cost impacts," he said.

Where much of the growth is happening, he added, is in behavioral health and long term care.

Sen. Barbara Kirkmeyer, a Brighton Republican, told Ferrandino the commission is not going to look just at those areas where the most growth has taken place. Those are some of the most vulnerable populations, she noted. Not

Lawmakers should also see outcomes, added Rep. Rick Taggart, a Grand Junction Republican. The question, he also said, is whether programs or products are successful.

"Are we getting better outcomes? Are we getting healthier Coloradans?" he asked.

He added, "We're spending a lot more on healthcare as a country, as a state" and not seeing longer life expectancies or better outcomes that warrant that kind of increase in spending.

HCPF Executive Director Gretchen Hammer pointed to policymaking — meaning legislation — as a driver of higher costs in areas such as acute care, pharmacy costs and behavioral health. She noted a study from the Kaiser Family Foundation last year that echoed rising costs across the country: higher healthcare needs and service utilization, long-term care, pharmacy, behavioral health and provider and managed care rate increases.

That study also showed that nationally, Medicaid spending per enrollee rose 16.6%, up from just 6.5% the year before.

Hammer outlined some preliminary action plans the department is working on to reduce costs, including administrative efficiencies, aligning benefits and services to maximize impact and value, ensuring program integrity and fiscal accountability and maximizing federal and nongeneral fund resources. The commission also heard from Medicaid providers and those who receive Medicaid services, including those with intellectual and developmental disabilities.

