



June 2019 | Legislative Council Staff  
**Economic & Revenue Forecast**

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Presentation to the Joint Budget Committee

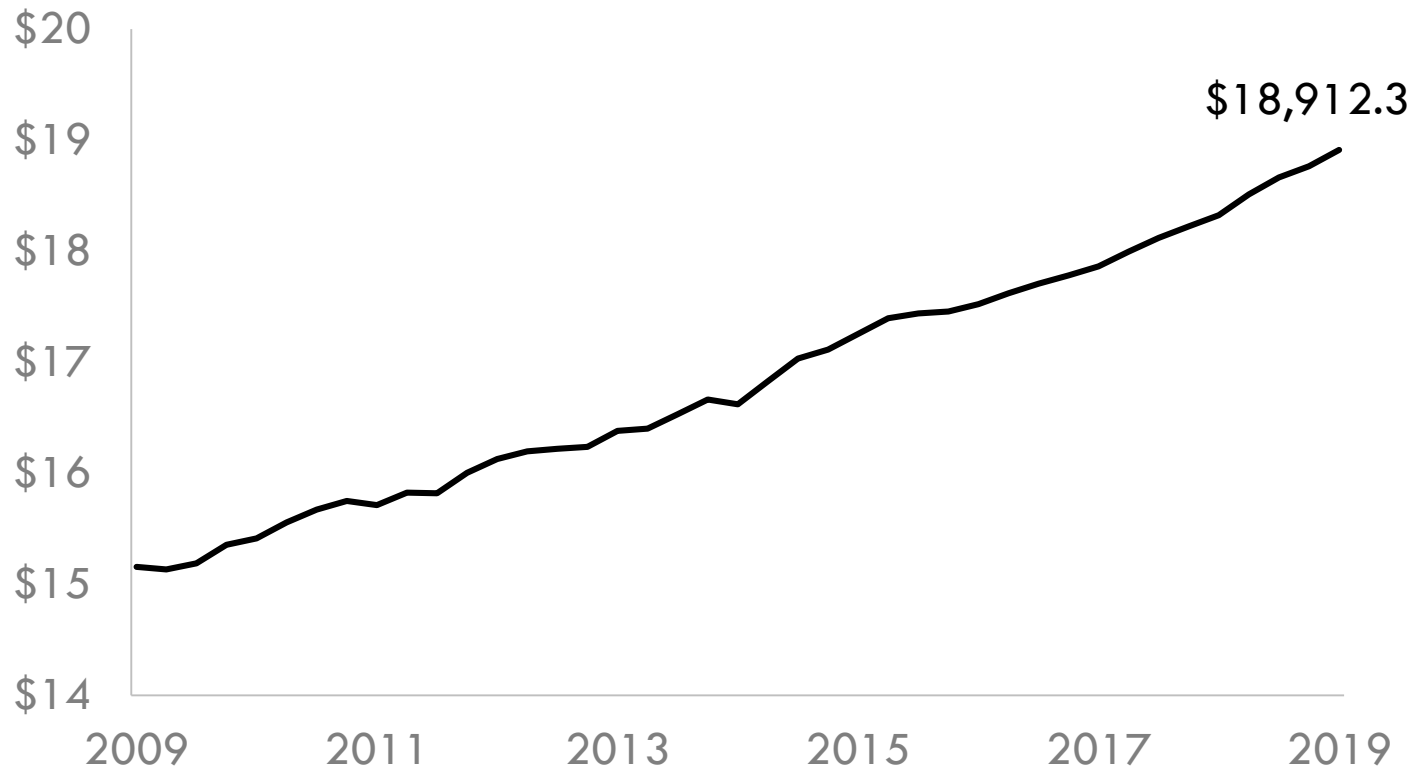
June 19, 2019

# Economic Outlook



# We are at the top of the business cycle

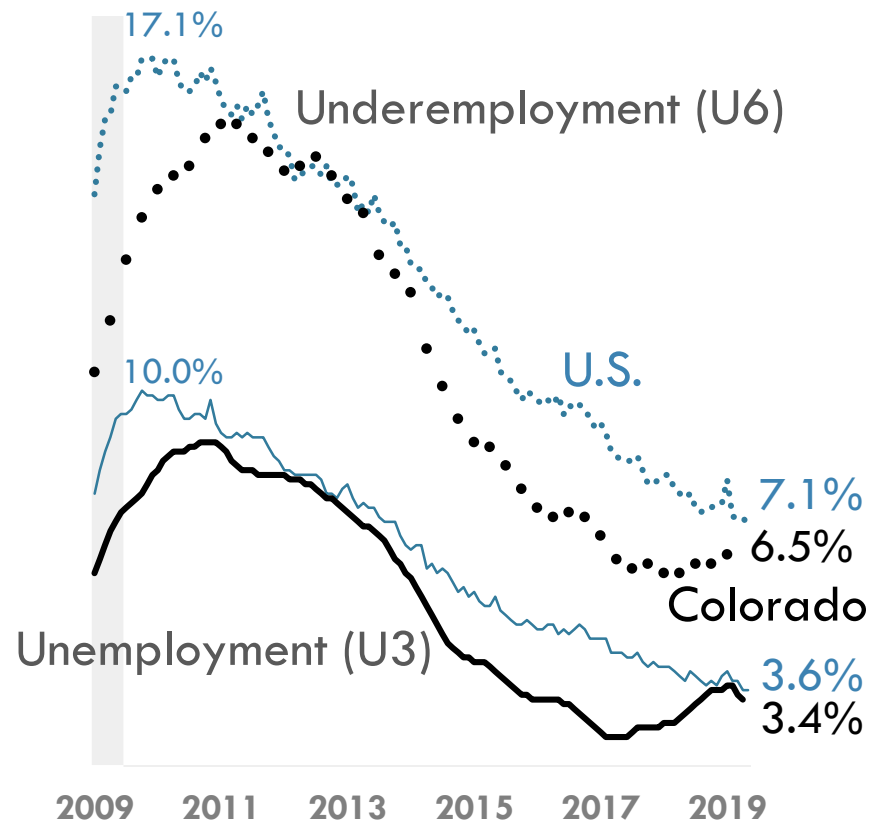
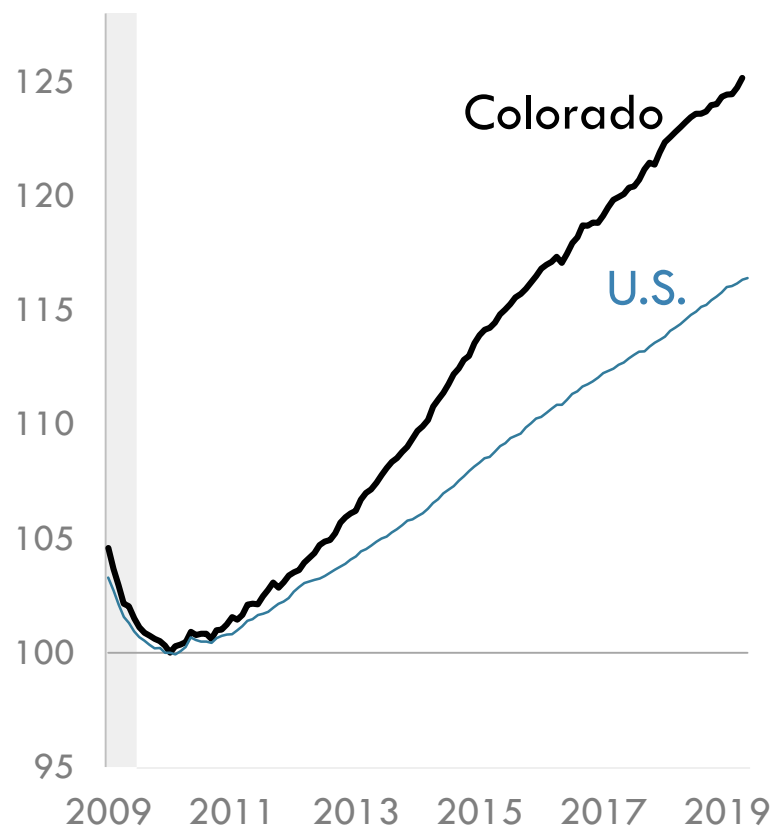
Real U.S. Gross Domestic Product (GDP)



# And employment is growing

## Total Nonfarm Employment

Index 100 = January 2010

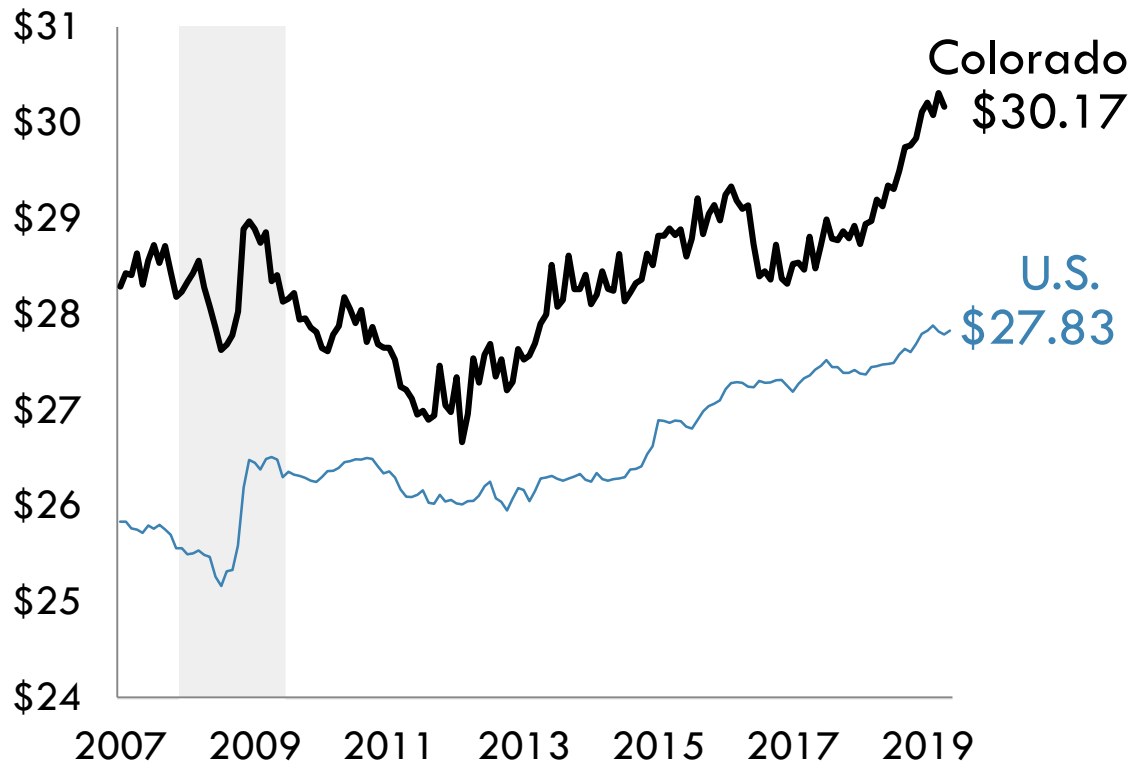


Source: U.S. Bureau of Labor Statistics. Seasonally adjusted. Colorado U6 rates shown as four-month moving averages.

# Wages are increasing

## Real Average Hourly Earnings

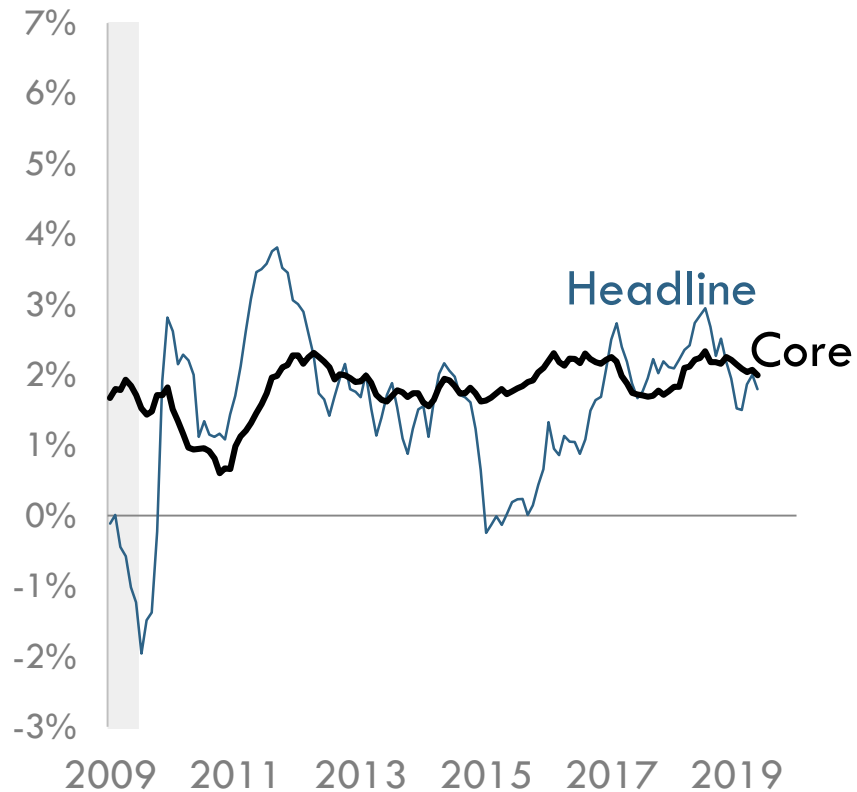
2019 Dollars



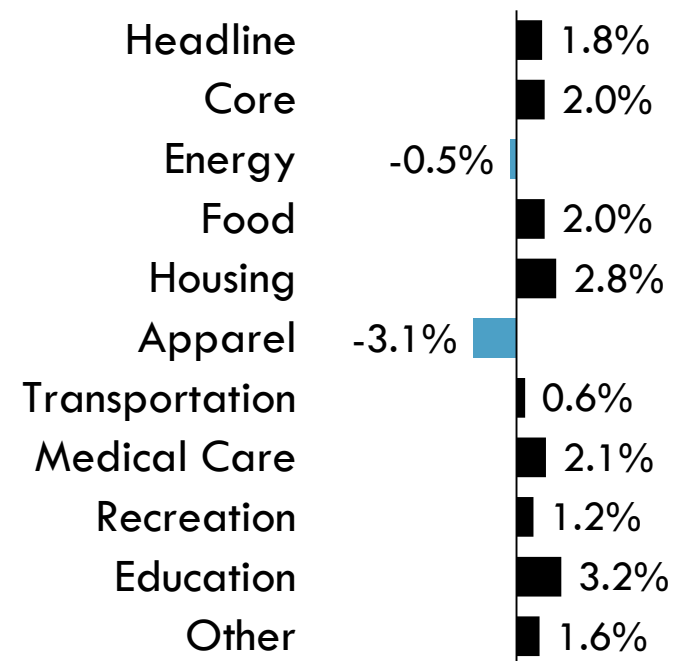
# And inflation is in check

## U.S. CPI-U Inflation

Year-over-Year Change in Prices

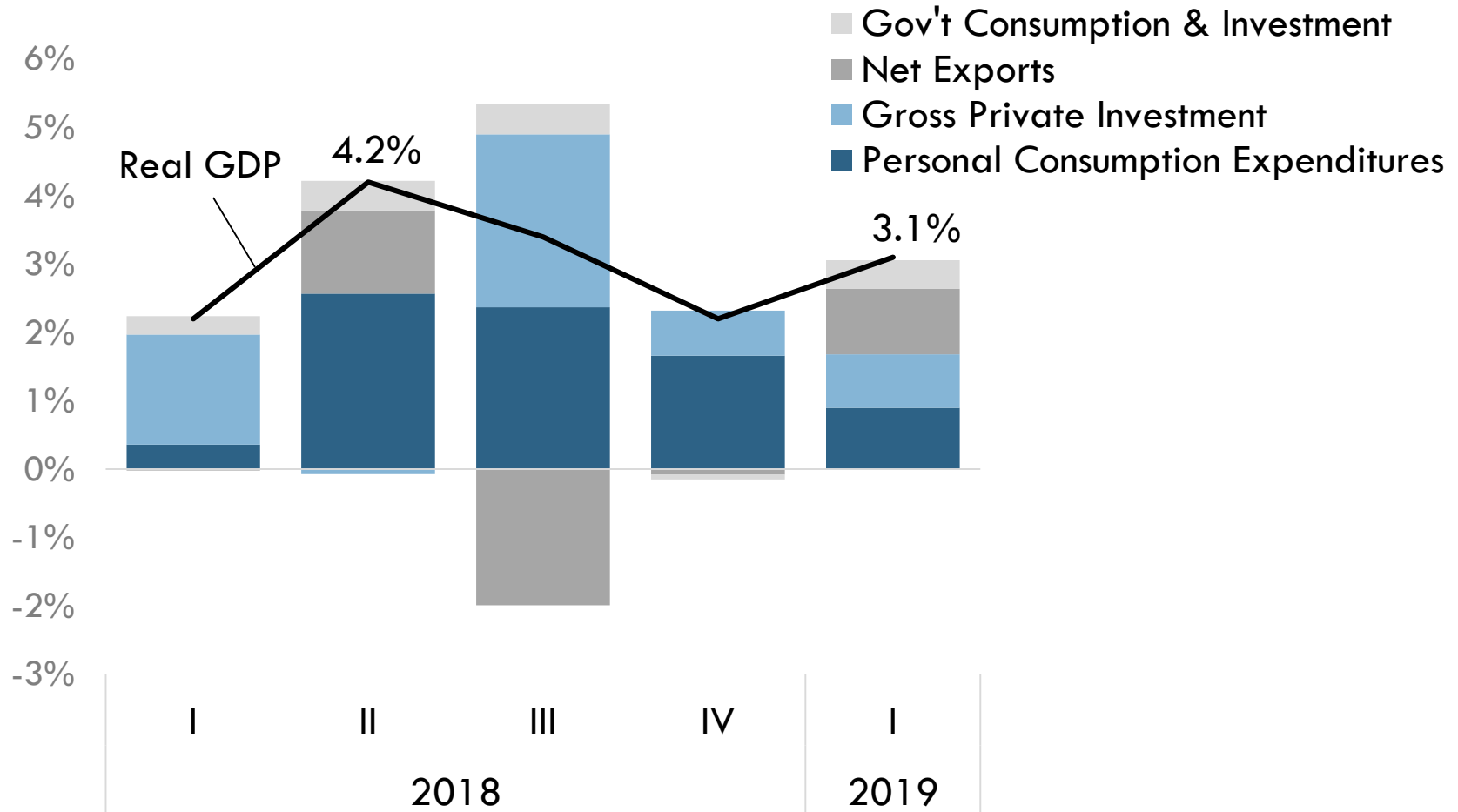


May 2019 over May 2018



# GDP components are weakening

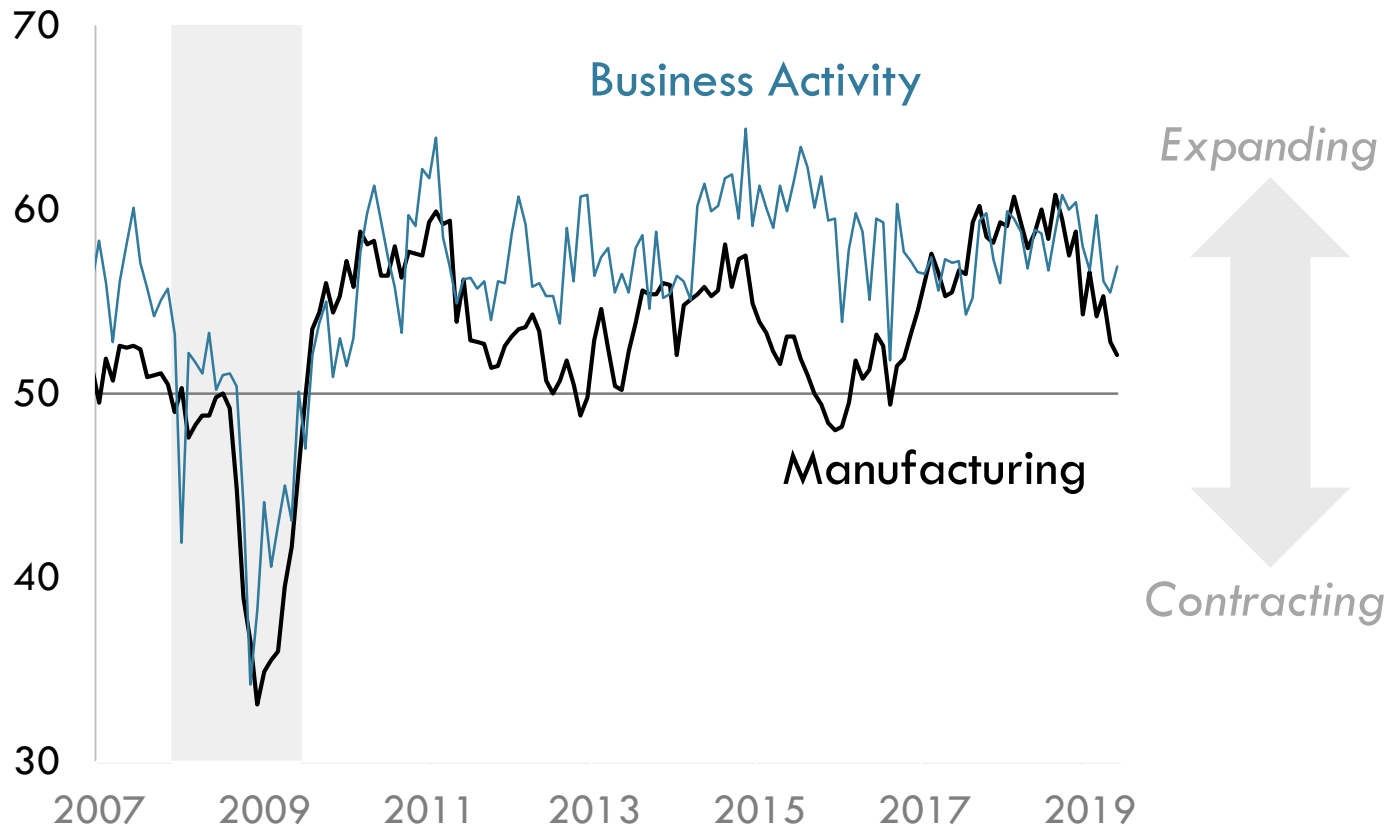
Contributions to Real U.S. Gross Domestic Product (GDP)



# So is manufacturing and business activity

U.S. Institute for Supply Management Indices

*Diffusion Index*

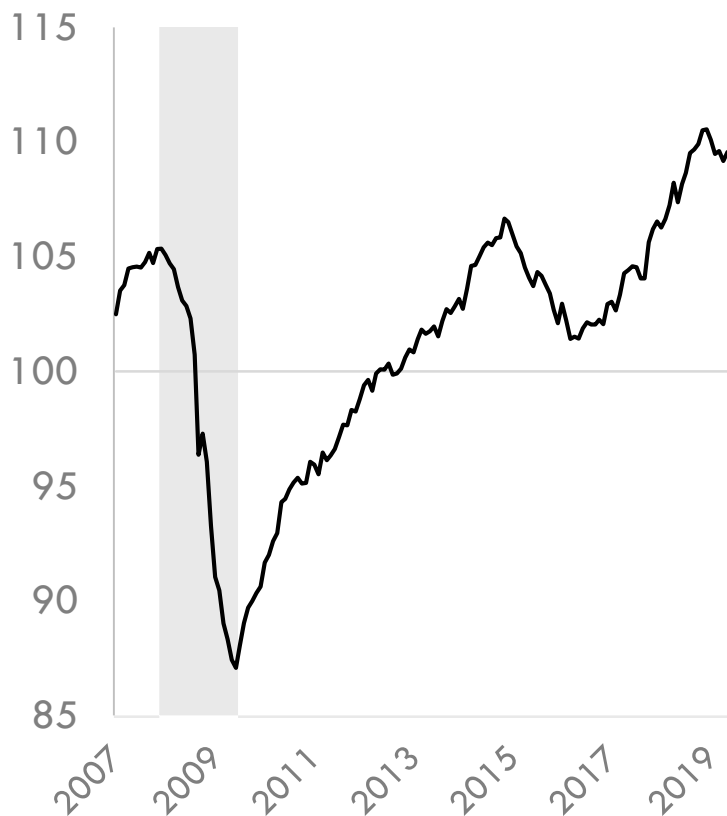




# With slower growth in industrial production

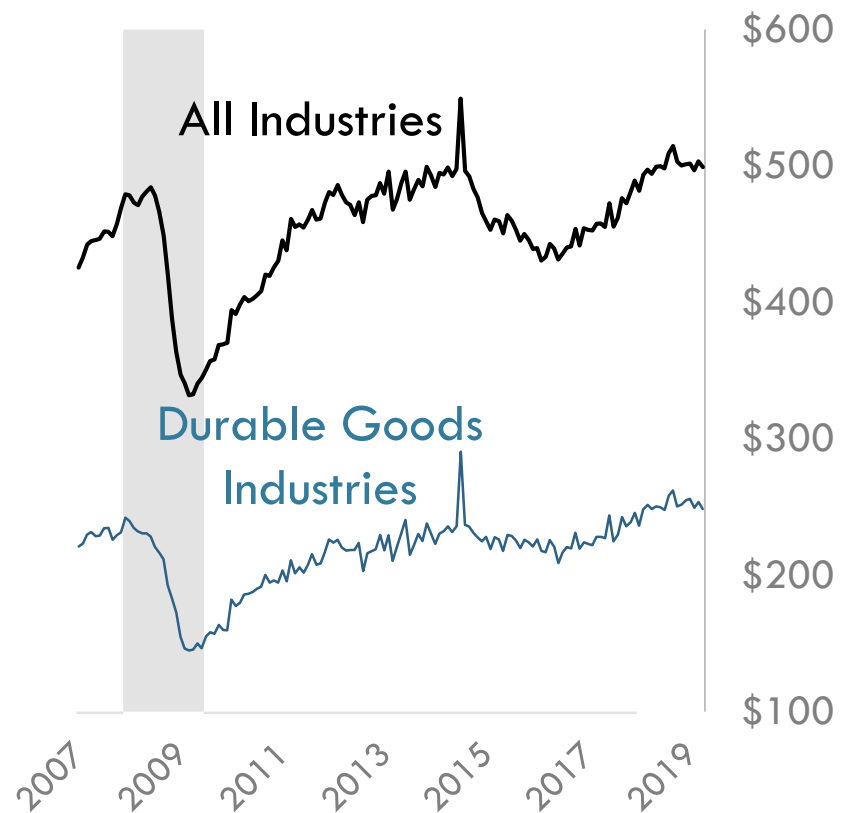
## U.S. Industrial Production Index

*Index 2009 = 100*



## U.S. New Manufacturers' Orders

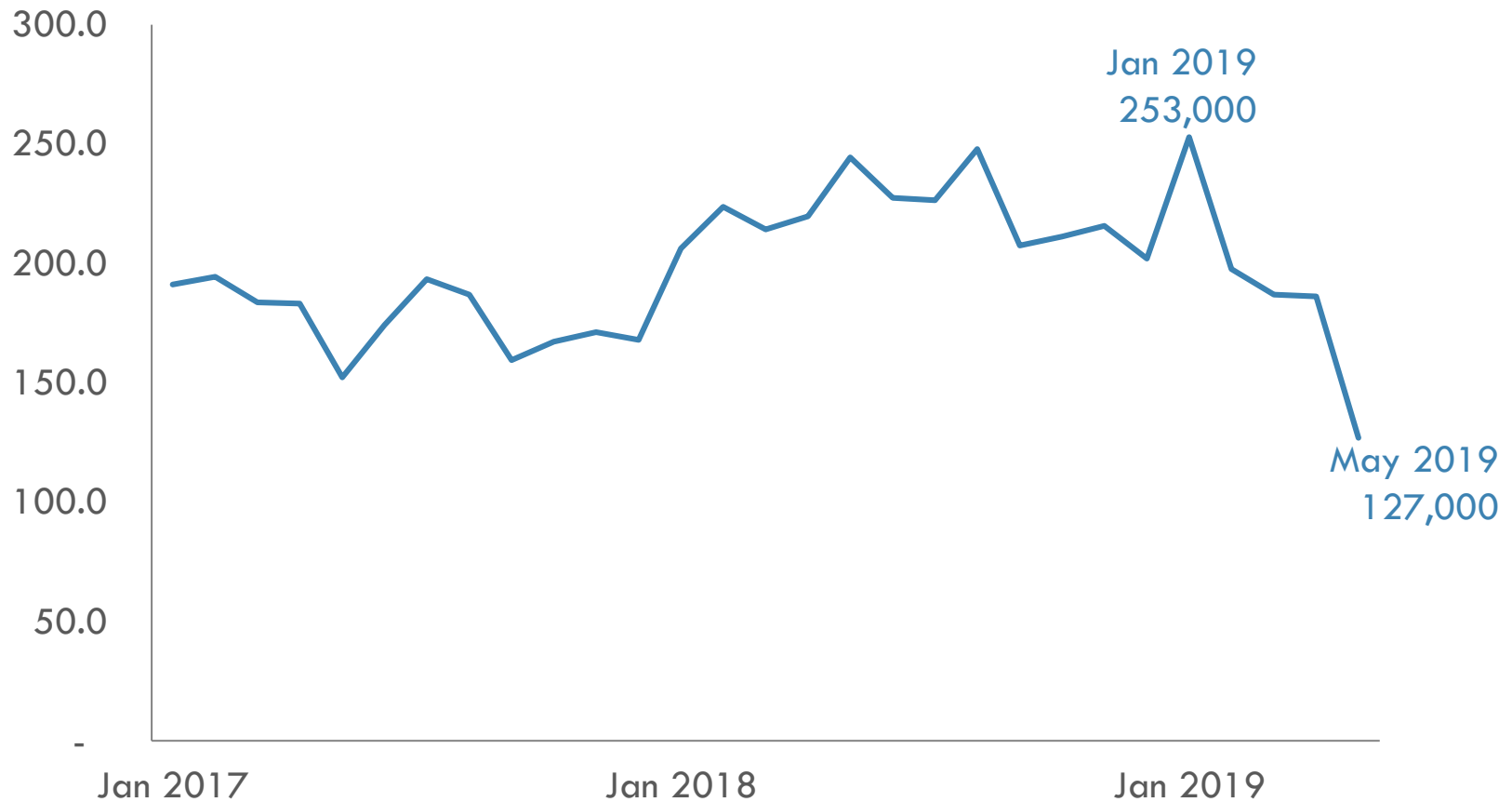
*Billions of Dollars*



# Employment growth is slowing

## Change in Total U.S. Nonfarm Employment

*Three-Month Moving Average, Thousands of Jobs*



# Economic Summary

## Economic activity remains elevated, but has slowed

- Growth will continue to moderate through 2021
  - Peak of the business cycle with low inflation
  - Tight labor market and rising wages
  - Slower business investment and consumer spending

## Uncertainties remain elevated

- Growth may continue to slow due to trade tensions, lack of demand, or weak global economy
- Uncertain if economic conditions are sustainable or driven by one-time policy changes

# General Fund Budget Outlook



# Revenue expectations were increased on strong income tax collections in FY 2018-19

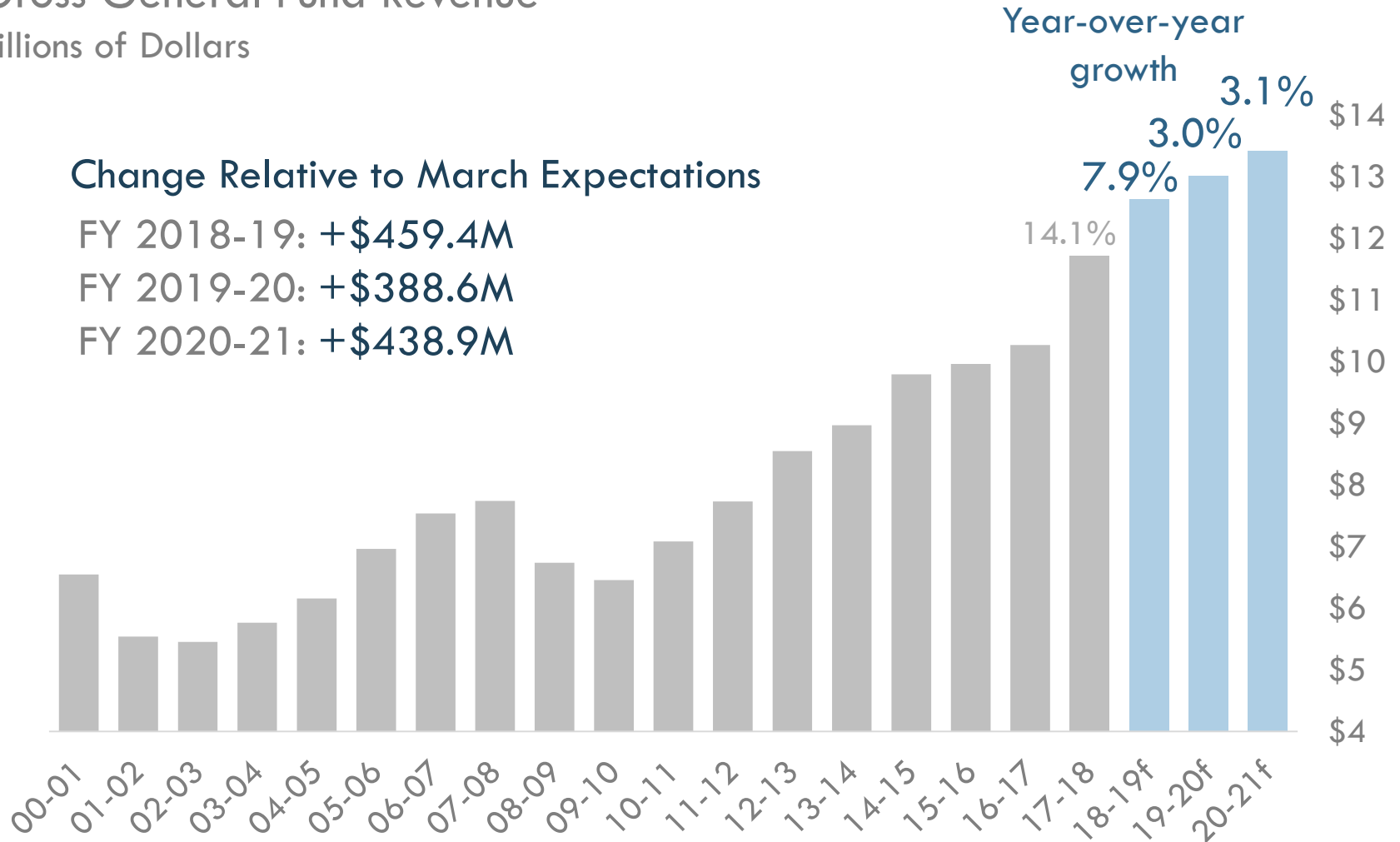
Gross General Fund Revenue  
Billions of Dollars

## Change Relative to March Expectations

FY 2018-19: +\$459.4M

FY 2019-20: +\$388.6M

FY 2020-21: +\$438.9M



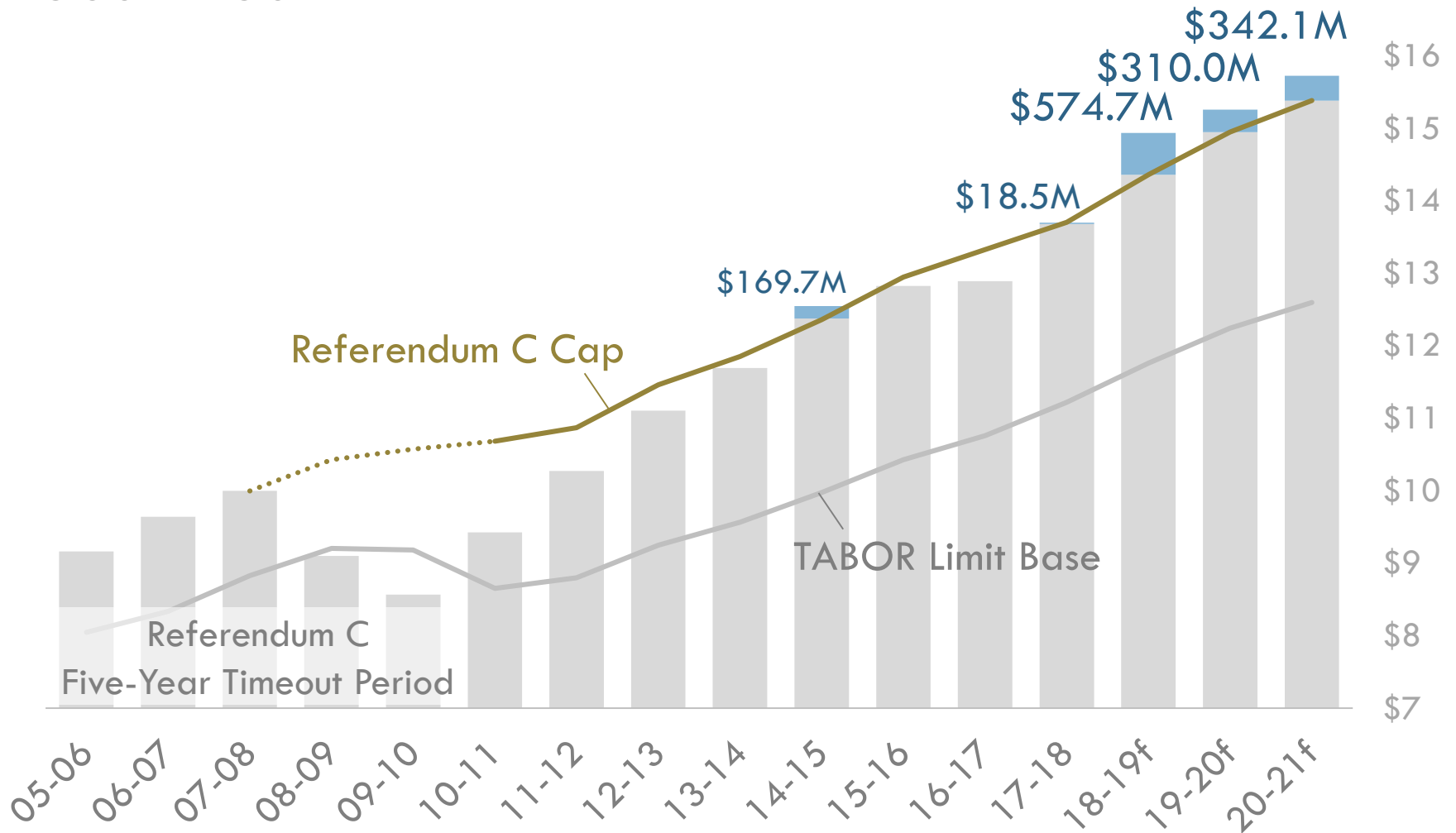
# Changes to the General Fund revenue forecast relative to March expectations

- Upward adjustment to each year due to stronger than expected income tax collections in FY 2018-19
  - However, it is uncertain whether this growth is one-time or ongoing
- Corporate income tax refunds and settlements
  - FY 2018-19, net +\$78.1 million resulting from the *Oracle* and *Agilent* decisions, refunds expected to mute growth in subsequent years
- 2019 legislative impacts will boost revenue beginning in FY 2019-20
  - HB 19-1240 sales tax administration changes +\$40.5M
  - HB 19-1245 vendor fee changes +\$23.1M

# TABOR Outlook

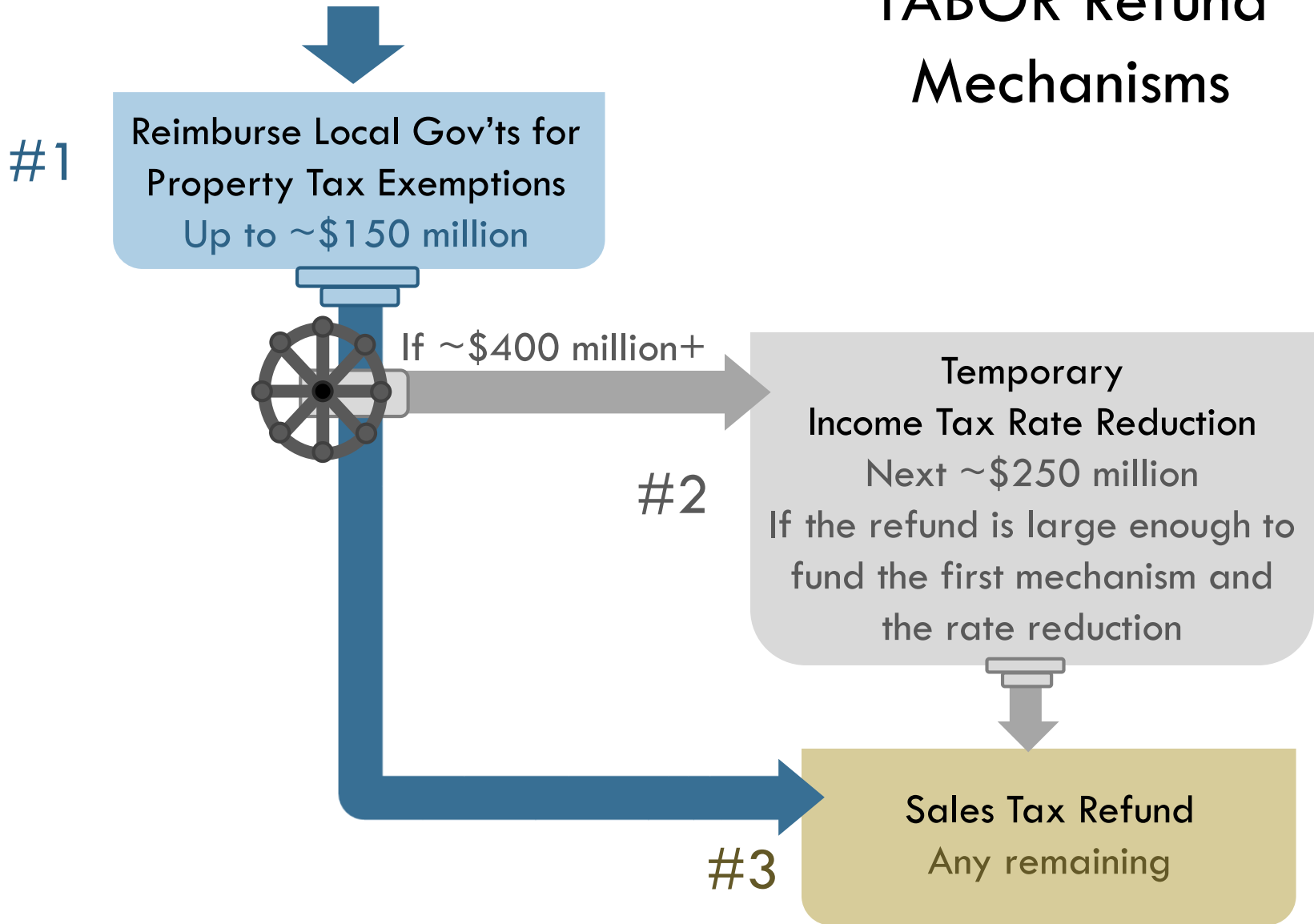
Revenue Subject to TABOR

Dollars in Billions



Source: Colorado Office of the State Controller and Legislative Council Staff June 2019 forecast.

# TABOR Refund Obligation



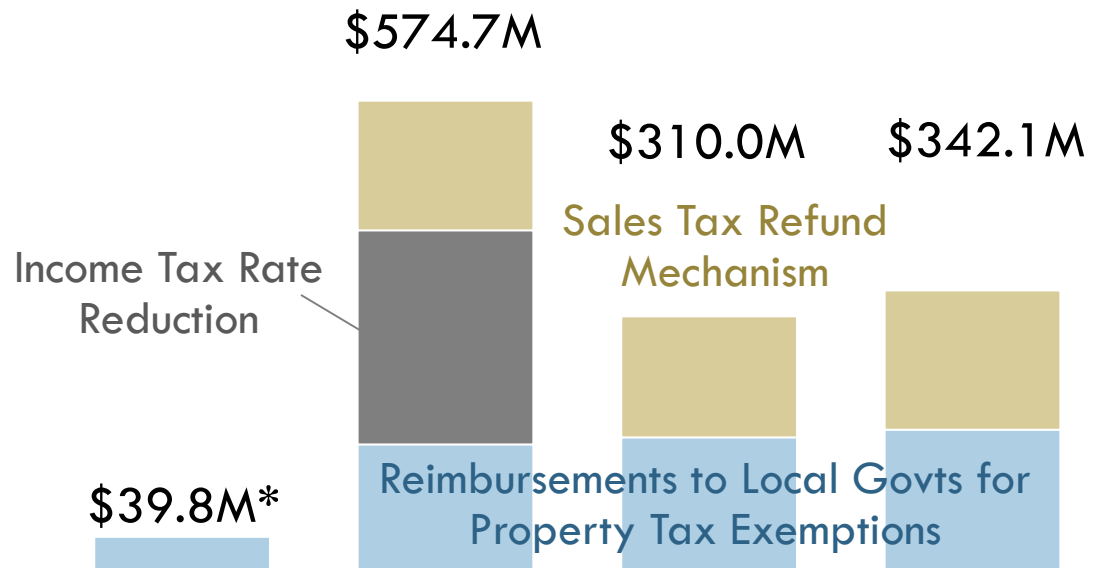
# TABOR Refund Mechanisms



TABOR surplus revenue is set aside in the year in which a surplus occurs to pay refunds in the following budget year

## Expected TABOR Refunds & General Fund Budget Impacts

Dollars in Millions



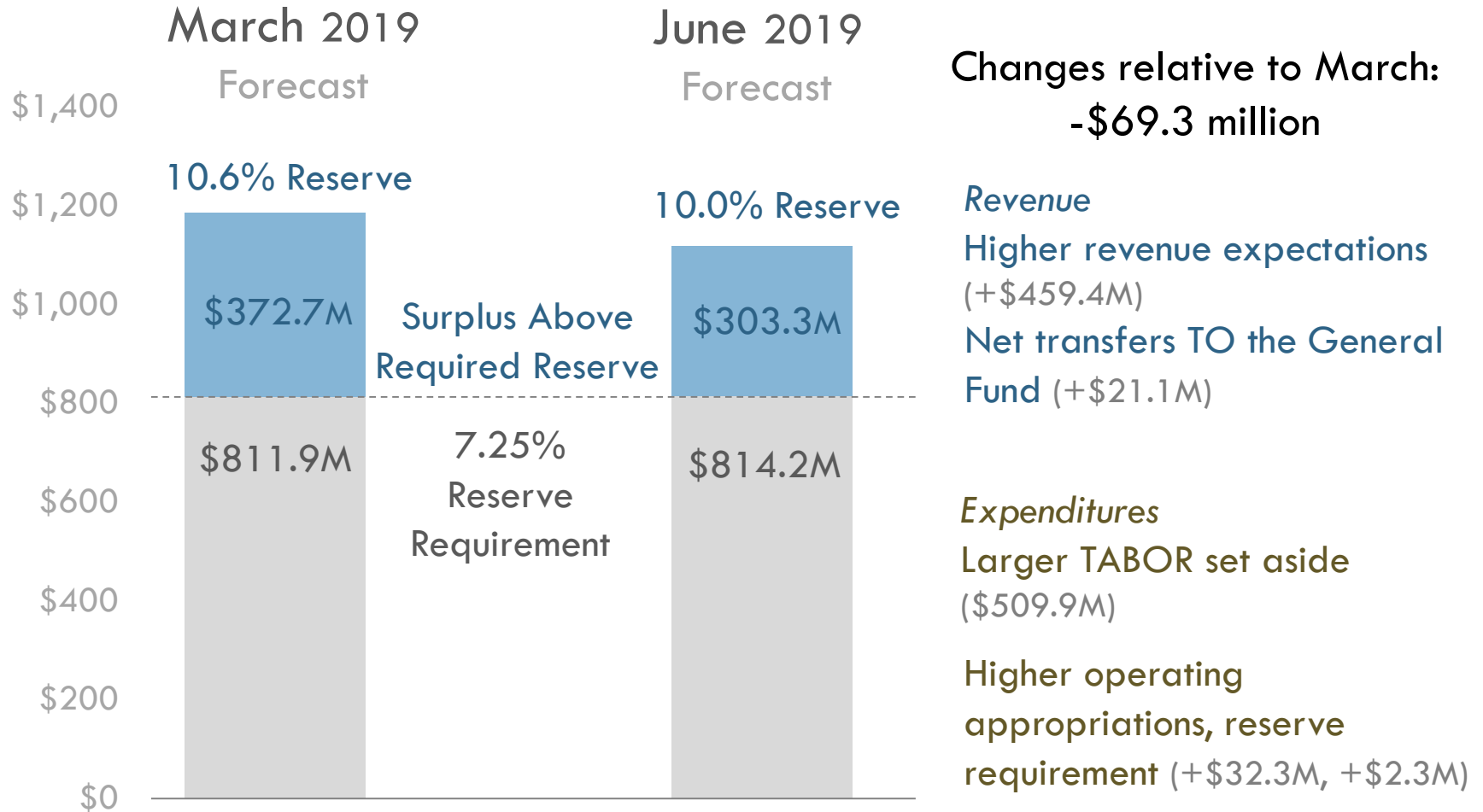
TABOR Surplus & Set Aside:	2017-18	2018-19	2019-20	2020-21
Refunded in Fiscal Year:	2018-19	2019-20	2020-21	2021-22

Source: Colorado Office of the State Controller and Legislative Council Staff June 2019 forecast.

\*This amount includes the \$18.5 million FY 2017-18 surplus and \$21.3 million in under-refunds from the FY 2014-15 surplus.

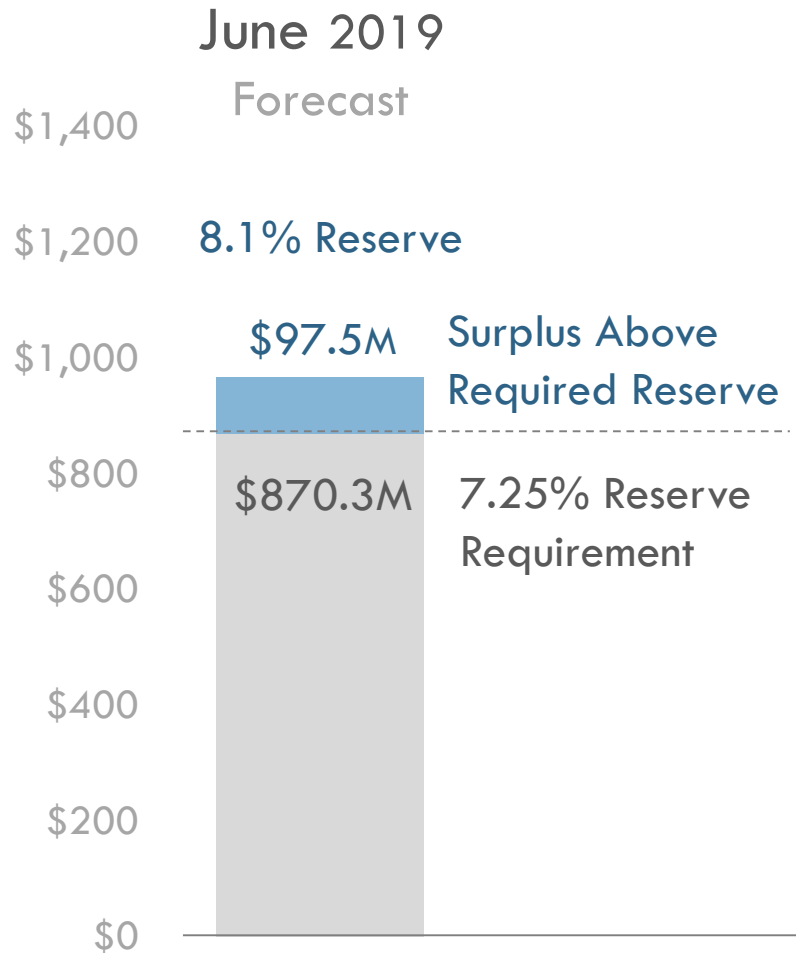
# Current Year | FY 2018-19 General Fund Reserve

Dollars in Millions



# Next Year | FY 2019-20 General Fund Reserve

Dollars in Millions



## Changes relative to March:

### Revenue

Smaller beginning balance (-\$67M)

Higher revenue expectations (\$388.6M)

### Expenditures

#### FY 2019-20 Budget Package

Larger TABOR set aside (\$310M, partially offset by \$75M reduction in spending obligation)

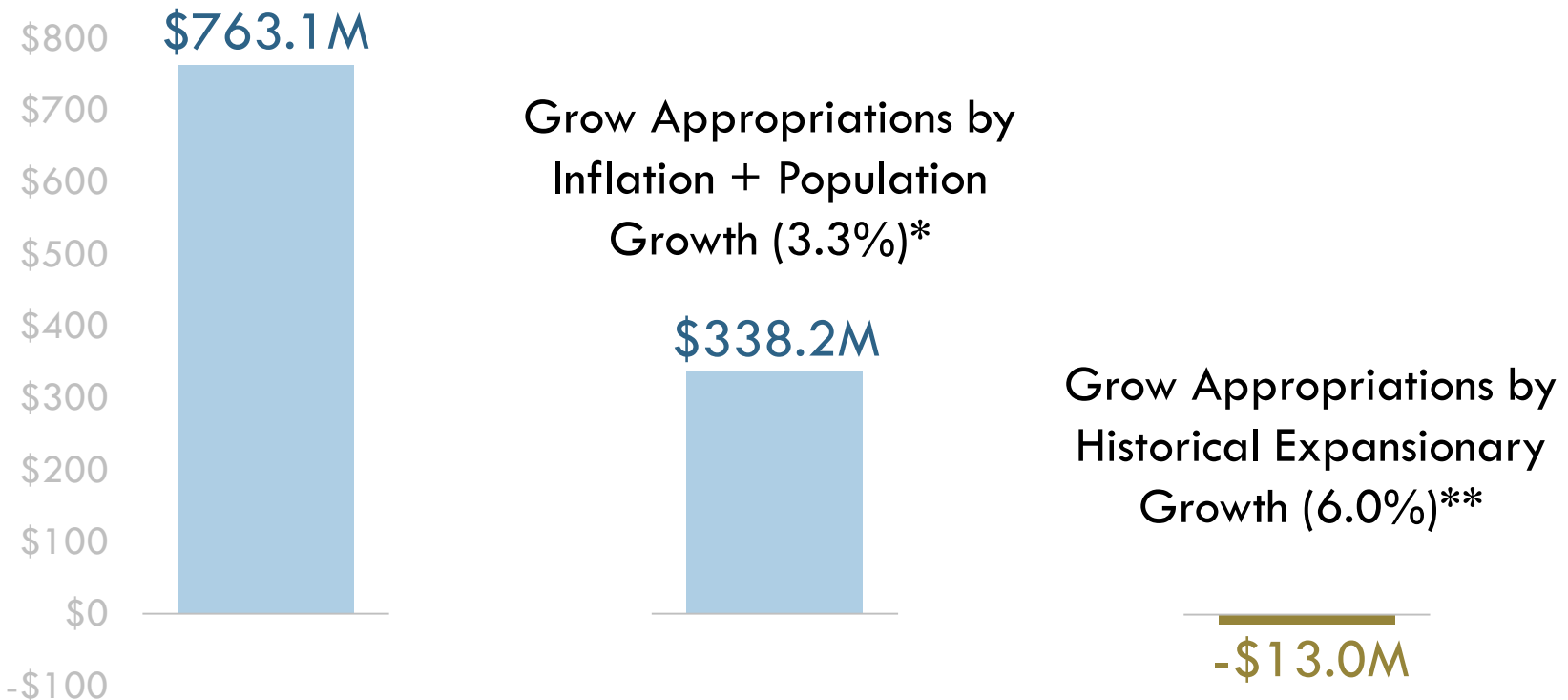
Larger net transfers FROM the General Fund (\$306.6M, primarily to transportation and capital construction)

# Out Year | FY 2020-21 Budget Outlook Scenarios

Amounts **above** or **below** the required 7.25% reserve.

Incorporates the revenue forecast, current law transfers, rebates and expenditures, TABOR refund obligations, and the reserve requirement.

## Hold FY 2019-20 Appropriations Constant



Source: Legislative Council Staff June 2019 forecast.

\*2020 projections. \*\*Appropriations growth over the past two economic expansions.

# Revenue trends in the late stages of economic expansion



This figure is for illustrative purposes and does not reflect actual state revenue collections.

# Risks to the Forecast

- **Upside risks**

- Stronger-than-expected economic activity
- Ongoing income tax base-building from federal tax law changes
- Out-of-state sales tax collections

- **Downside risks**

- Slower growth and rising risk of recession as the economic expansion matures

- **In the current TABOR refund situation...**

- The TABOR limit will constrain revenue growth
- Upside surprises mean larger TABOR refunds
- Downside surprises mean greater budgetary pressures

# Questions?

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