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*

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline</td>
<td>1.8%</td>
</tr>
<tr>
<td>Core</td>
<td>2.0%</td>
</tr>
<tr>
<td>Energy</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Food</td>
<td>2.0%</td>
</tr>
<tr>
<td>Housing</td>
<td>2.8%</td>
</tr>
<tr>
<td>Apparel</td>
<td>-3.1%</td>
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<tr>
<td>Transportation</td>
<td>0.6%</td>
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<tr>
<td>Medical Care</td>
<td>2.1%</td>
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<tr>
<td>Recreation</td>
<td>1.2%</td>
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<tr>
<td>Education</td>
<td>3.2%</td>
</tr>
<tr>
<td>Other</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau. Seasonally adjusted.
GDP components are weakening

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

Source: Bureau of Economic Analysis. Seasonally adjusted annual rates.
So is manufacturing and business activity

U.S. Institute for Supply Management Indices

**Diffusion Index**

- **Business Activity**
- **Manufacturing**

Source: Institute for Supply Management.
With slower growth in industrial production

U.S. Industrial Production Index
Index 2009 = 100

U.S. New Manufacturers’ Orders
Billions of Dollars

Source: Federal Reserve Board of Governors & U.S. Census Bureau.
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

Year-over-year growth
14.1% 7.9% 3.0% 3.1%

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

See the General Fund revenue section of the June forecast document for additional information.
TABOR Outlook

Revenue Subject to TABOR
Dollars in Billions

Expected TABOR Surpluses

Referendum C Cap

TABOR Limit Base

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

1. Reimburse Local Gov’ts for Property Tax Exemptions
   Up to ~$150 million

2. Temporary Income Tax Rate Reduction
   Next ~$250 million
   If the refund is large enough to fund the first mechanism and the rate reduction

3. Sales Tax Refund
   Any remaining
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

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<thead>
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<tbody>
<tr>
<td>Refunded in Fiscal Year:</td>
<td>2018-19</td>
<td>2019-20</td>
<td>2020-21</td>
<td>2021-22</td>
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</table>

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

March 2019 Forecast

- 10.6% Reserve
- Surplus Above Required Reserve
  - $372.7M
- Required Reserve
  - $811.9M

June 2019 Forecast

- 10.0% Reserve
- Required Reserve
  - $303.3M
- Surplus Above Required Reserve
  - $814.2M

Changes relative to March: -$69.3 million

Revenue
- Higher revenue expectations (+$459.4M)
- Net transfers TO the General Fund (+$21.1M)

Expenditures
- Larger TABOR set aside ($509.9M)
- Higher operating appropriations, reserve requirement (+$32.3M, +$2.3M)

Source: Legislative Council Staff forecasts based on current law. For more detail, see Table 2 of the June forecast document.
## Next Year | FY 2019-20 General Fund Reserve

**Dollars in Millions**

<table>
<thead>
<tr>
<th>June 2019 Forecast</th>
<th></th>
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<td>$1,400</td>
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<tr>
<td>$0</td>
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</table>

### 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)

Source: Legislative Council Staff forecasts based on current law. For more detail, see Table 2 of the June forecast document.
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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