



March 2021 | Legislative Council Staff

Economic & Revenue Forecast

Presentation to the Joint Budget Committee

March 19, 2021

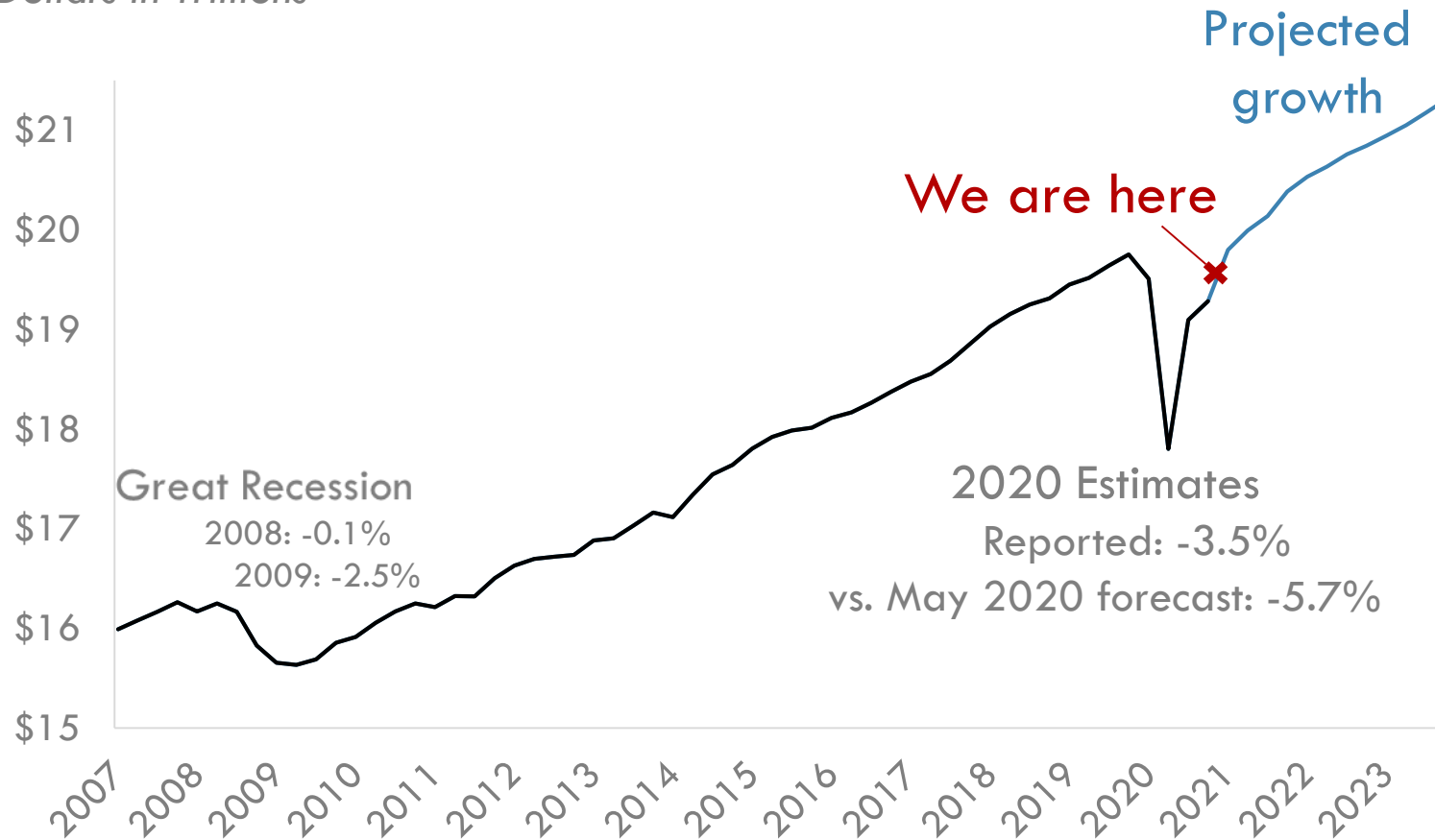
Economic Outlook



The worst of the recession appears to be behind us

Real U.S. Gross Domestic Product

Dollars in Trillions



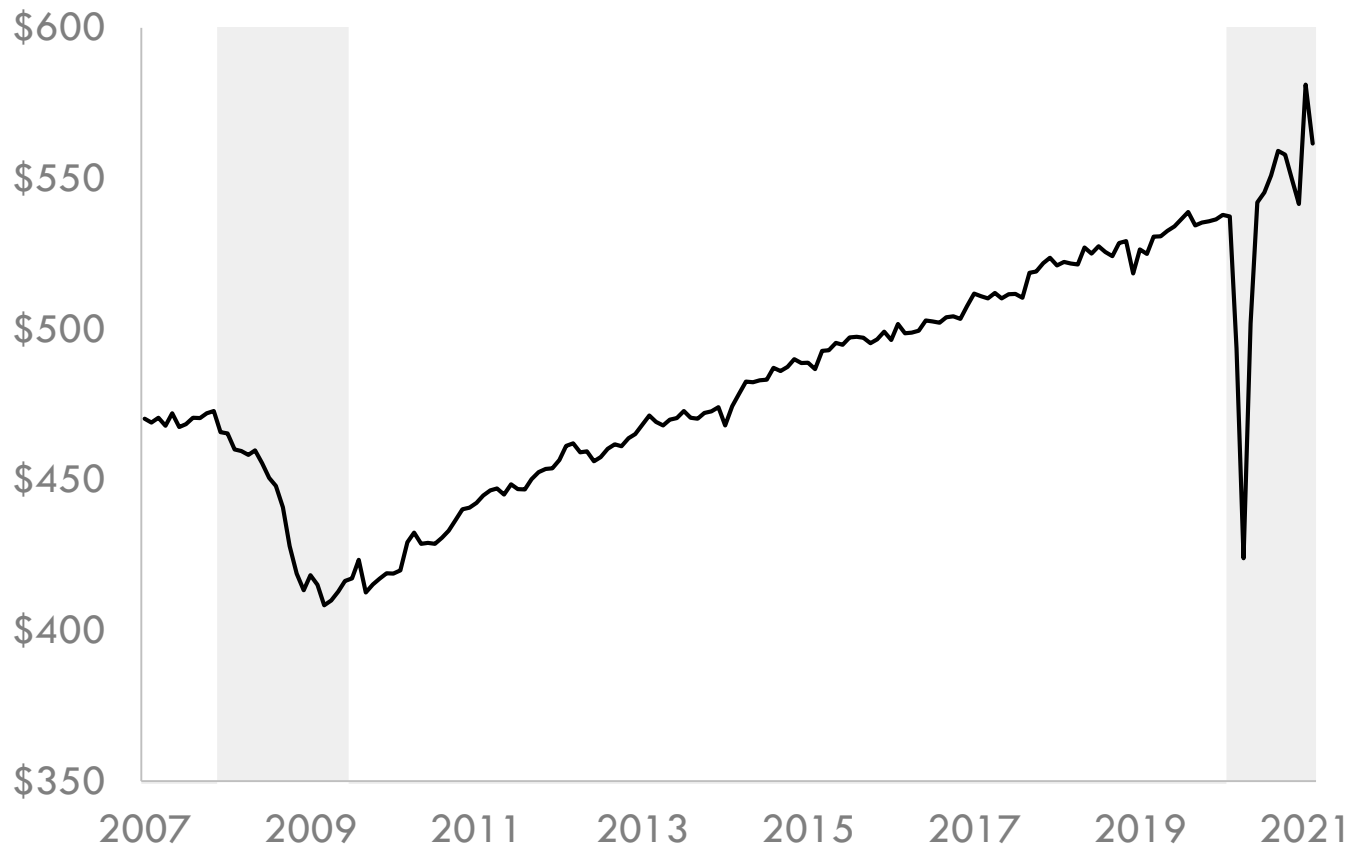
Source: U.S. Bureau of Economic Analysis and Legislative Council Staff March 2021 projections.

Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

Retail trade sales have comfortably surpassed pre-recession peak levels

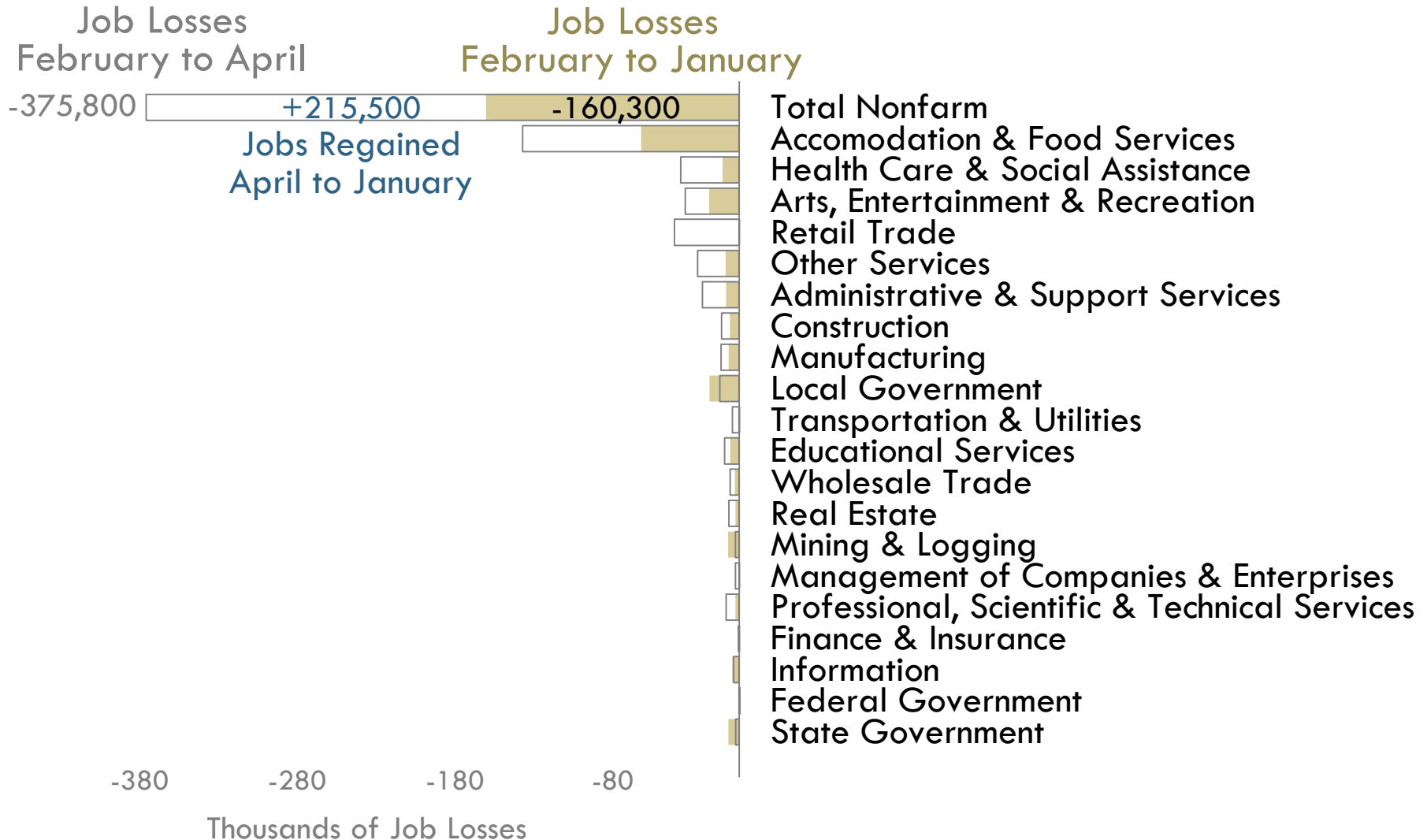
Monthly U.S. Retail and Food Service Sales

2020 Dollars in Billions



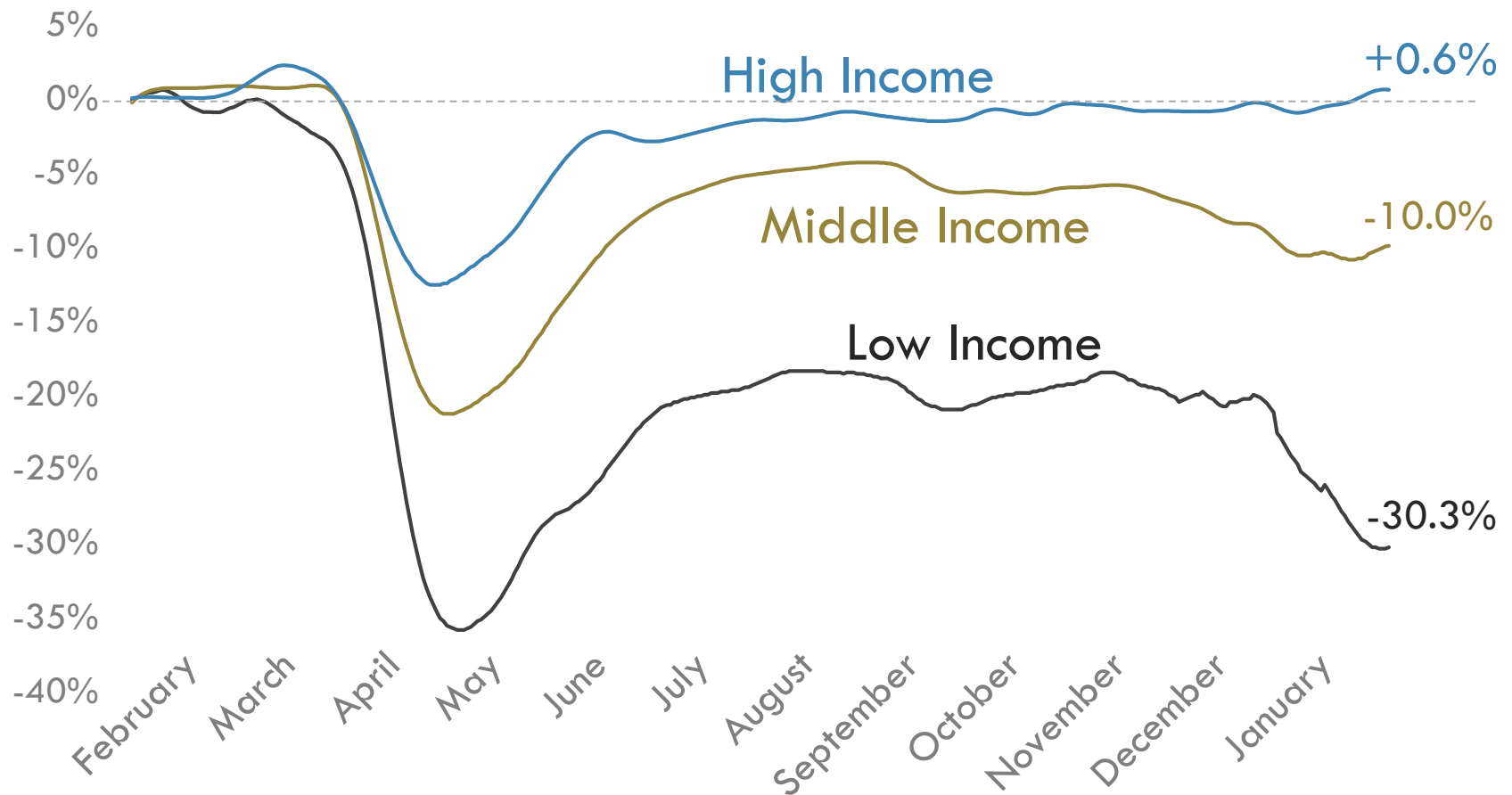
Source: U.S. Census Bureau, Advanced Retail Trade Report. Data are through February 2021.

As of January, Colorado had regained 57 percent of jobs lost since the pandemic began



While high-wage employment is at pre-recessionary levels, low-wage workers remain severely impacted

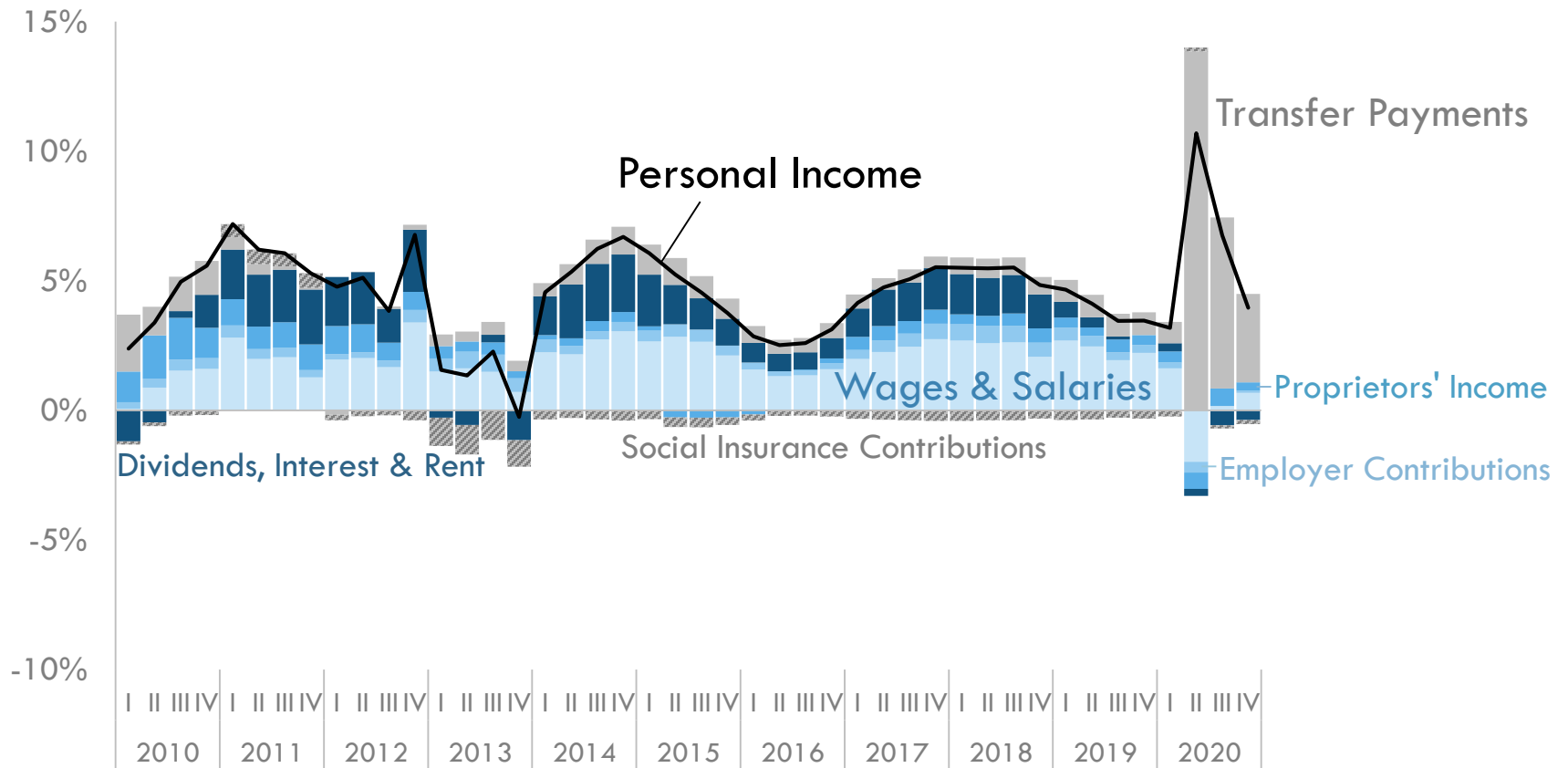
Percent change in Colorado employment since January 2020



Surging transfer payments bolstered 2020 incomes

U.S. Personal Income and Its Contributions

Contributions to Percent Change, Year-over-Year

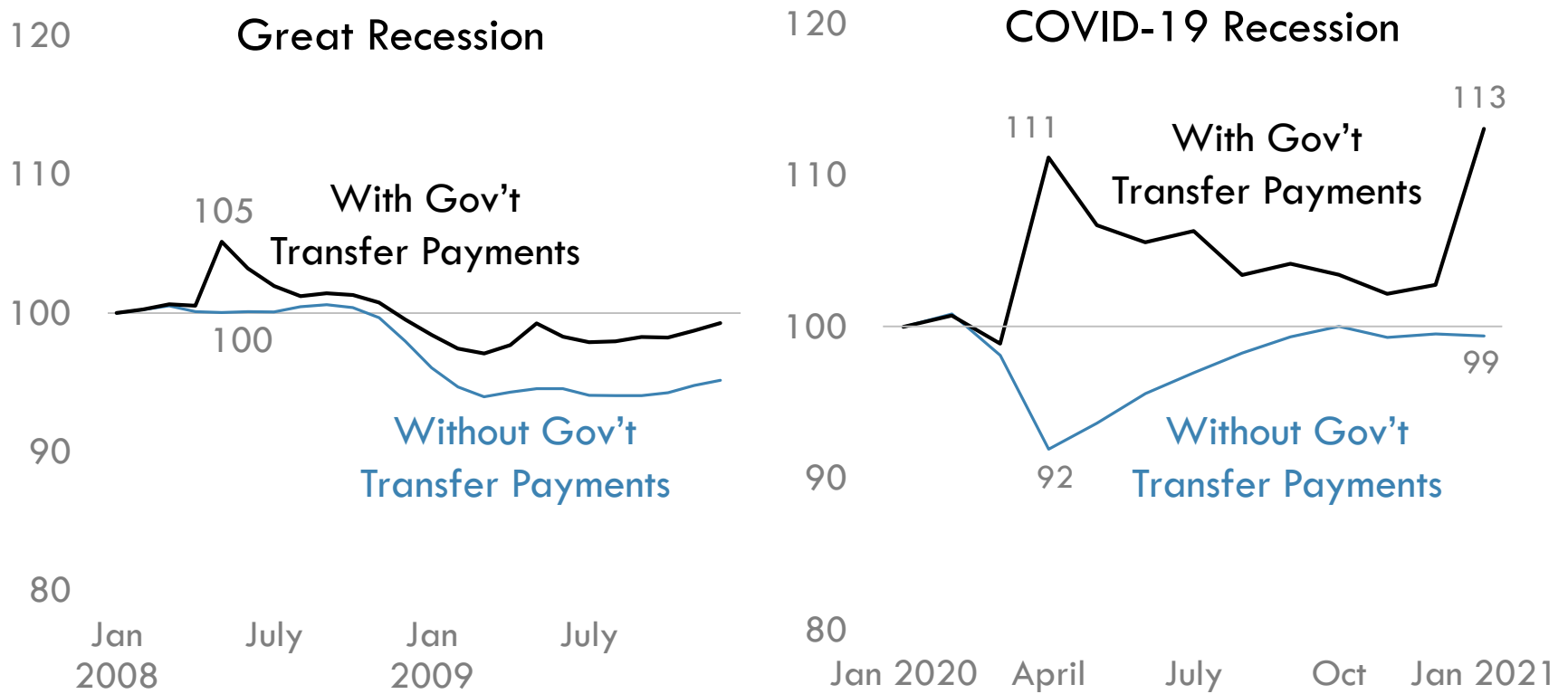


Source: U.S. Bureau of Economic Analysis with Legislative Council Staff calculations. Data shown as seasonally adjusted annual rates and are not adjusted for inflation.

Transfer payments turned losses into significant gains

U.S. Personal Income

Indexed to Pre-Recession Levels



Expectations for the American Rescue Plan

- Extended unemployment benefits sustain **incomes** for unemployment insurance recipients
- Direct payments boost near-term **spending and saving**
 - Expect higher percentage to be spent than under CARES
- Expanded tax credits ease some pressures on taxpayers with low incomes
- No assumptions for state and local government allocations yet
 - Potential upside impacts on public sector **employment**

The American Rescue Plan resets risks to the forecast

- It realizes much of the upside risk to our December forecast
- It dissipates (or delays) many of the downside risks to our December forecast
- It raises a new set of bidirectional risks
 - **Upside:** near-term, demand-driven boom, with positive consequences for spending, employment, incomes, and tax revenues
 - **Downside:** inflation, financial market volatility, overheating, and interest rate hikes
- Some other risks (e.g. COVID resurgence or mutation) persist
- Near-term risks are weighted to the upside, while medium-term risks are balanced

General Fund Budget Outlook

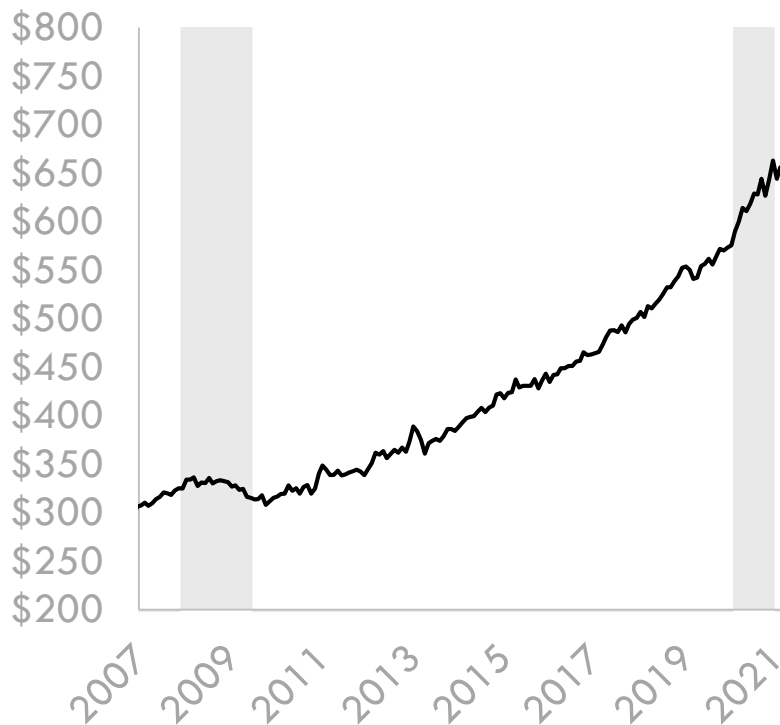


Relative to prior recessions, General Fund revenue has remained resilient during the pandemic to date

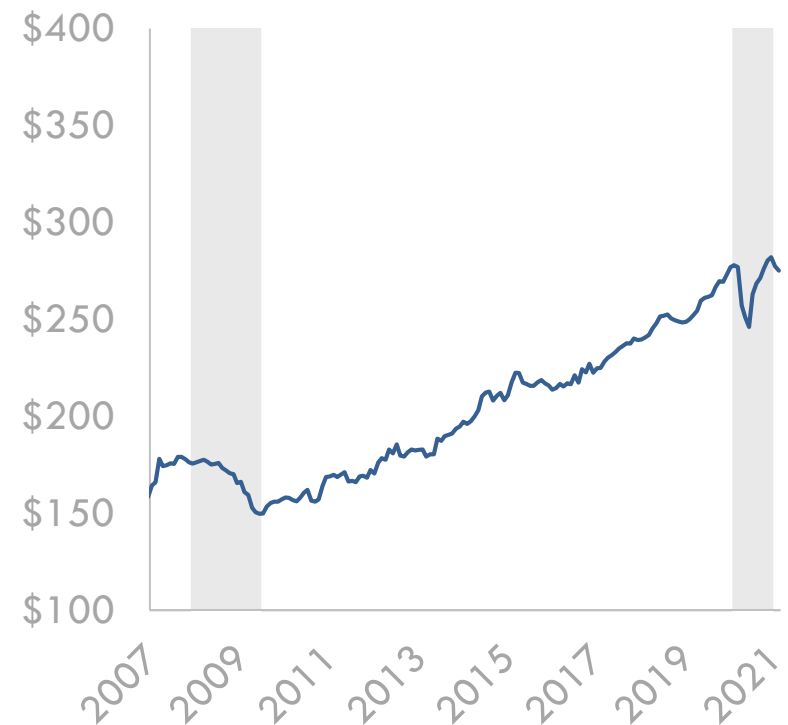
Monthly General Fund Collections from Selected Sources

Dollars in Millions

Individual Income Tax Withholding



Sales Tax Collections



Source: Colorado Office of the State Controller with Legislative Council Staff seasonal adjustments. Data shown as three-month moving averages through February 2021. February 2021 data are preliminary.

General Fund revenue expectations were increased on higher than expected collections to date, additional federal stimulus

Gross General Fund Revenue

Billions of Dollars

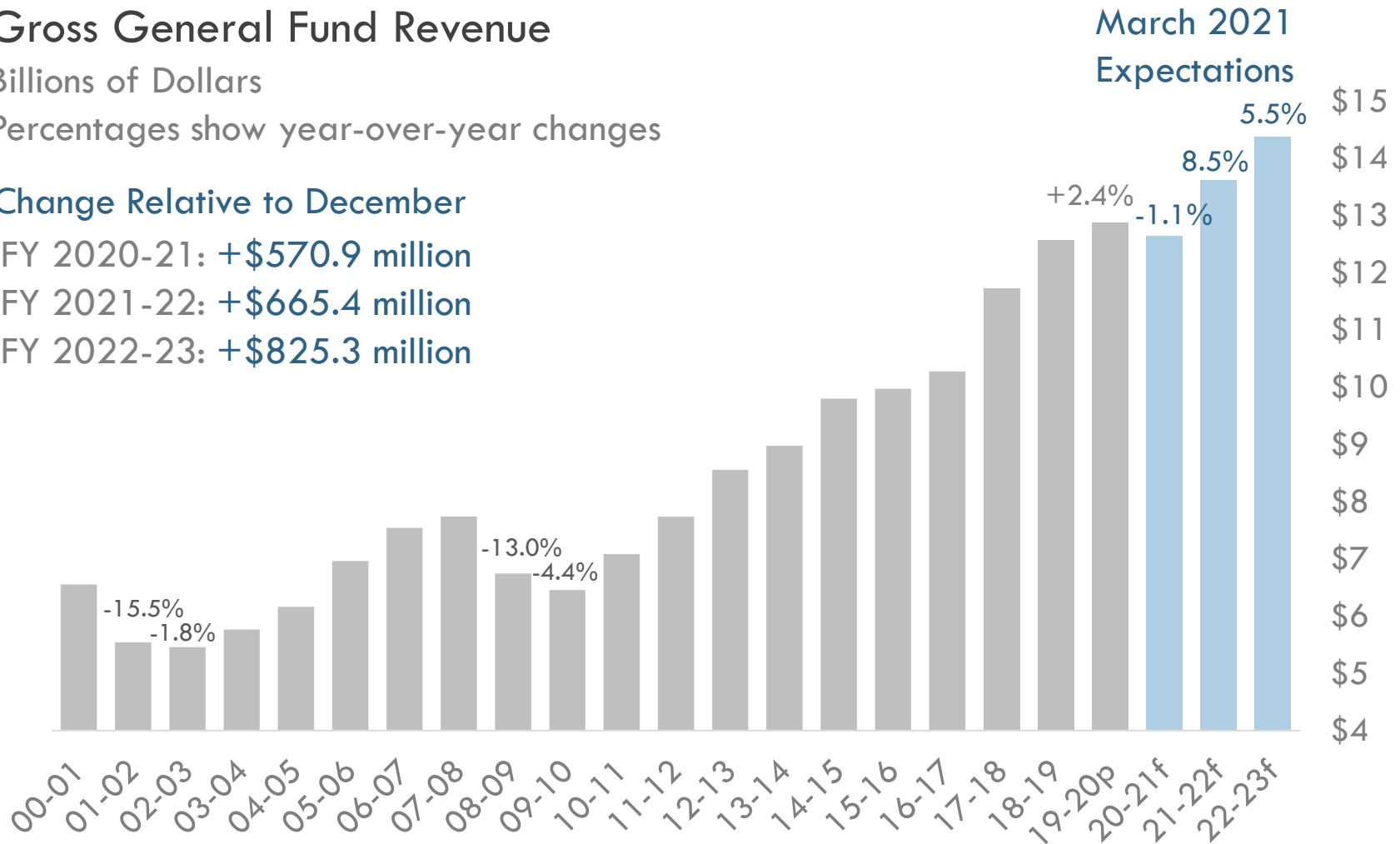
Percentages show year-over-year changes

Change Relative to December

FY 2020-21: +\$570.9 million

FY 2021-22: +\$665.4 million

FY 2022-23: +\$825.3 million

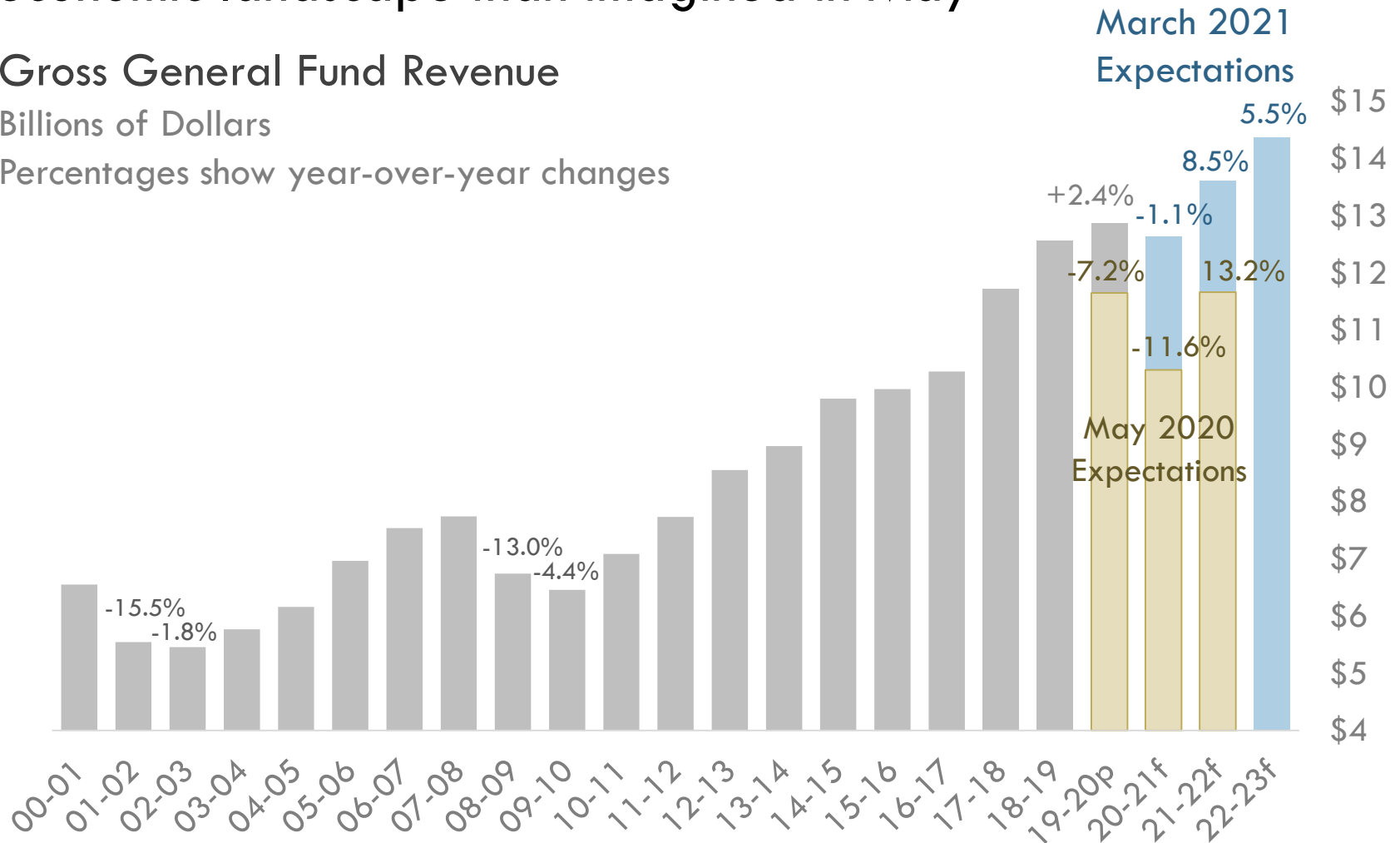


Revenue expectations have increased considerably as data have become available and suggested a much stronger economic landscape than imagined in May

Gross General Fund Revenue

Billions of Dollars

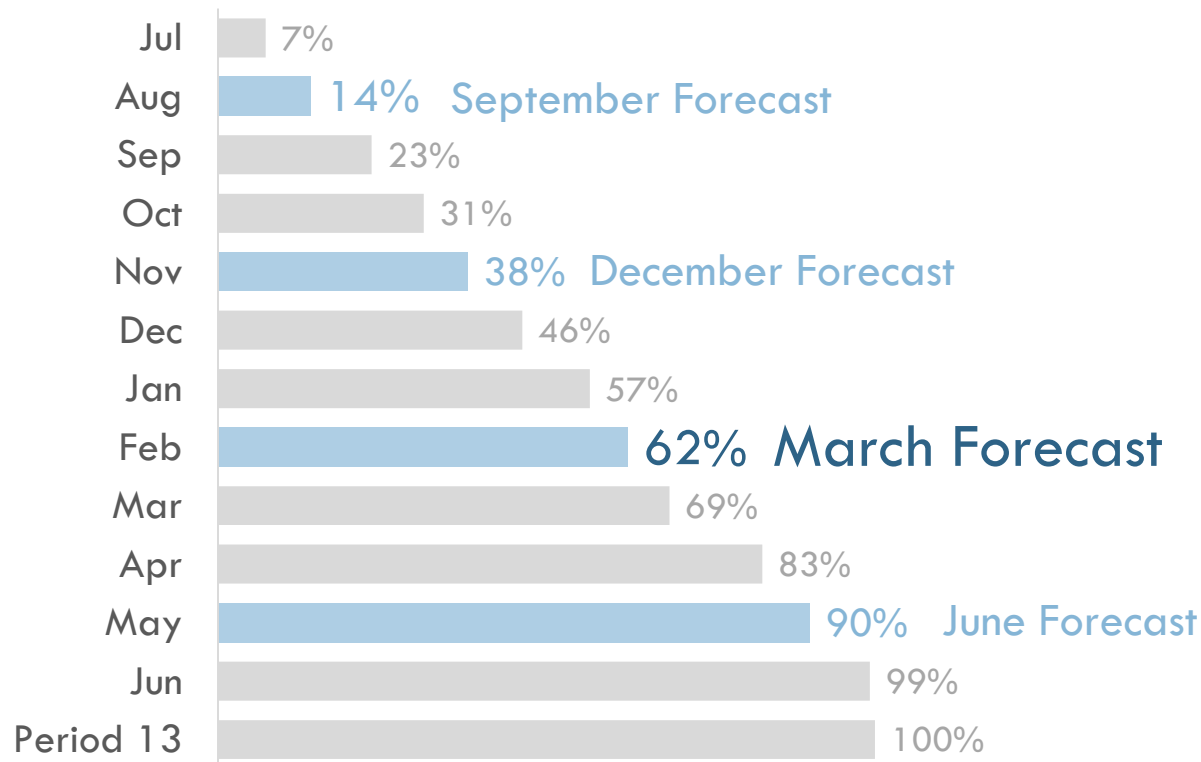
Percentages show year-over-year changes



Due to delayed filings and refunds, we have less information than usual for this March forecast

How much do we know about FY 2020-21?

Available General Fund Collections Data as a Share of Total Fiscal Year Collections*

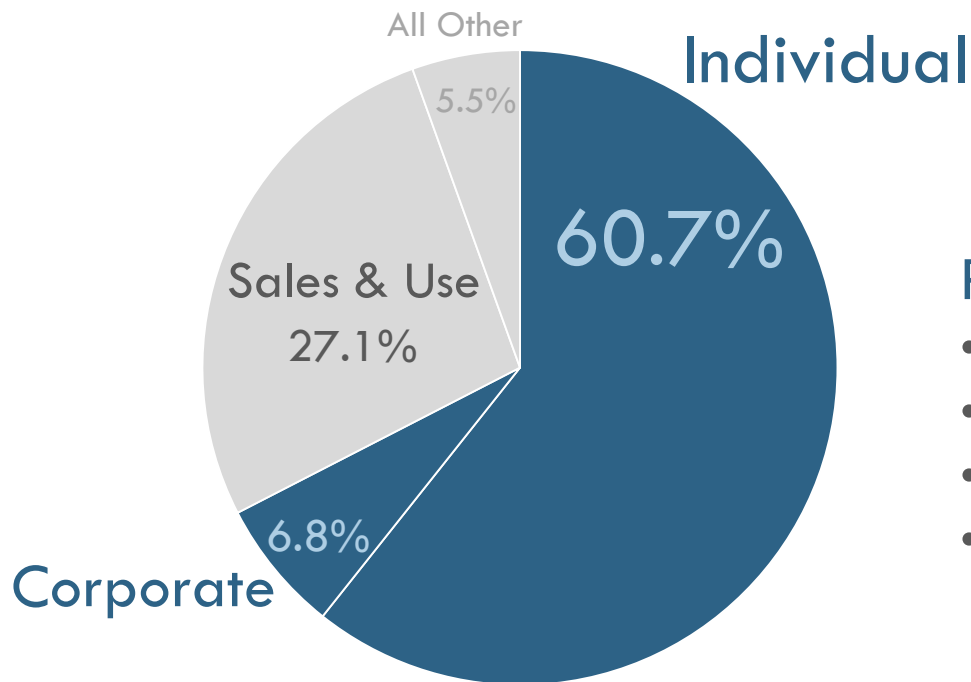


Source: Colorado Office of the State Controller and Legislative Council Staff calculations.

*Six-year average of actual collections data, FY 2013-14 to FY 2018-19.

Income tax collections make up a majority of General Fund revenue and are the most volatile revenue stream

Share of General Fund Revenue*



Risks to the Income Tax Forecast

- Economic uncertainty
- Delayed filing deadlines
- Unemployment insurance benefits
- State and federal policy changes

Source: Colorado Office of the State Controller and Legislative Council Staff calculations.

*Based on FY 2018-19 collections. Income taxes net of the State Education Fund diversion.

TABOR Outlook

Revenue Subject to TABOR

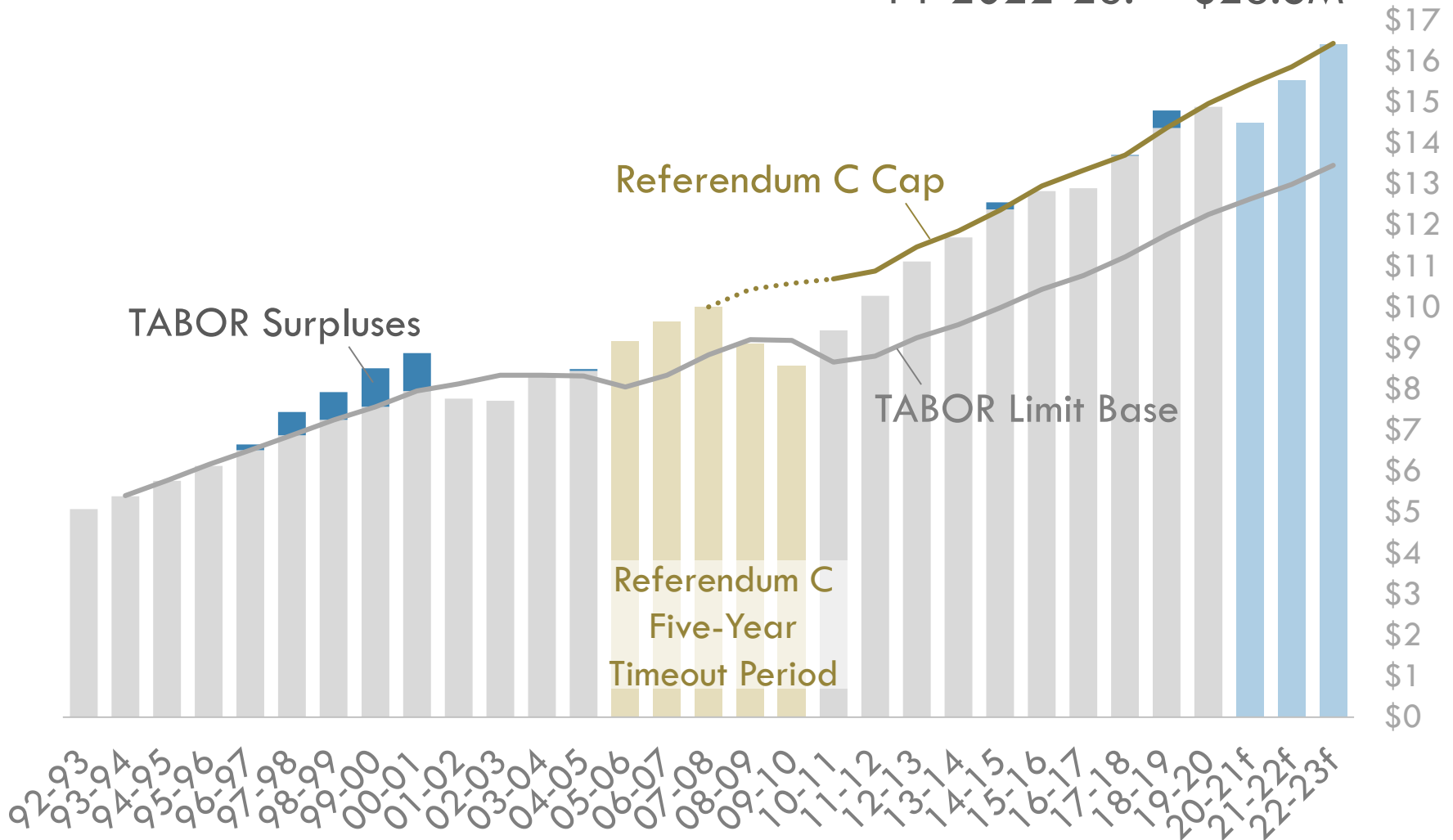
Dollars in Billions

Revenue Below the Ref C Cap

FY 2020-21: -\$941.2M

FY 2021-22: -\$328.7M

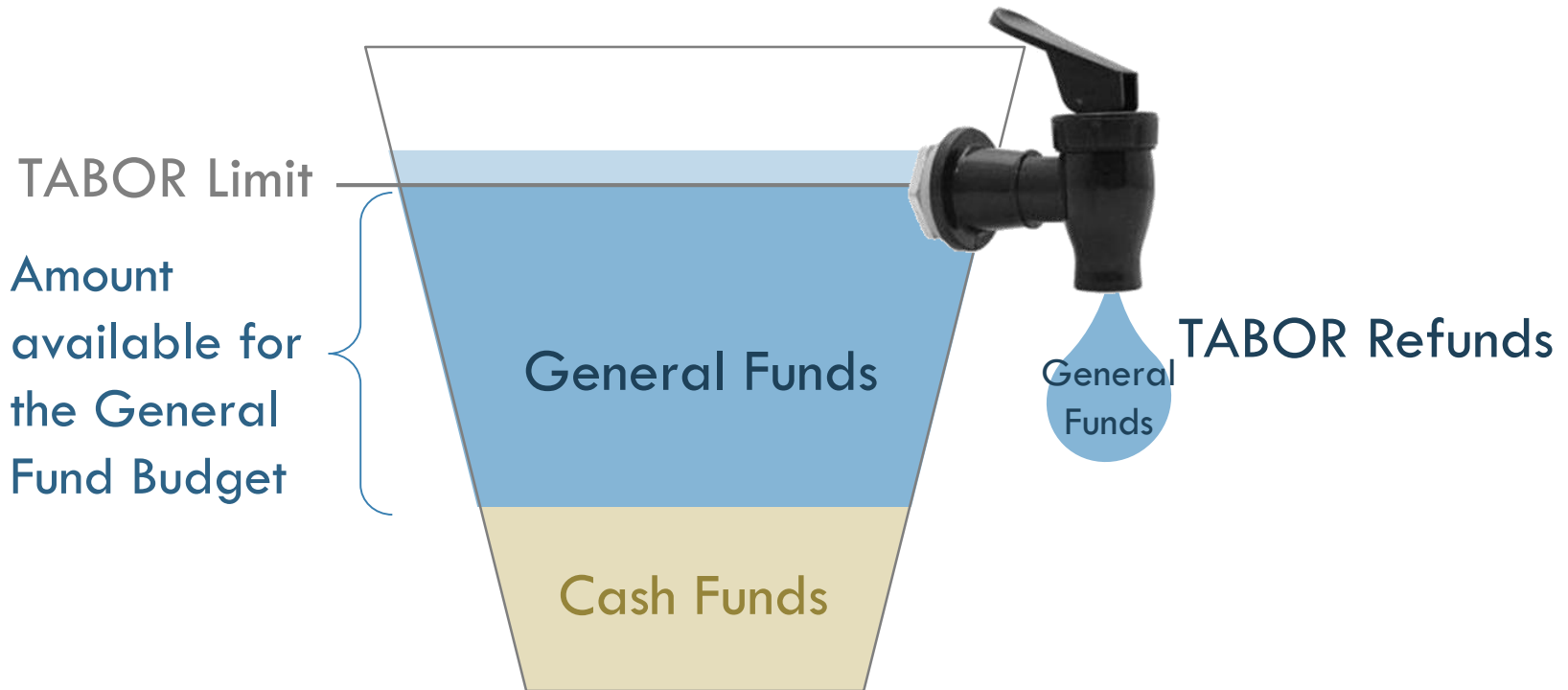
FY 2022-23: -\$28.6M



Source: Colorado Office of the State Controller and Legislative Council Staff March 2021 forecast.

TABOR Refunds are refunded from General Funds

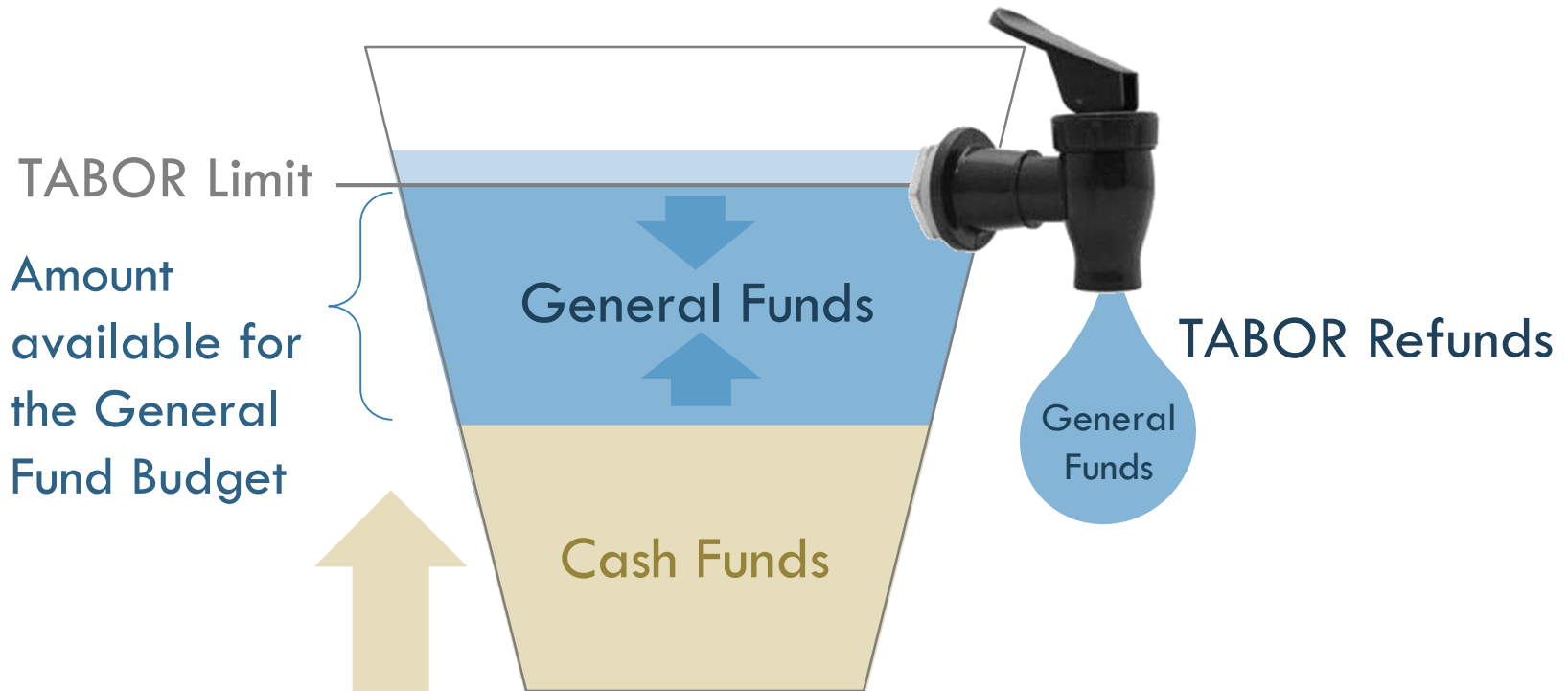
In a TABOR surplus situation...



General Fund dollars in = General Fund dollars out

TABOR Refunds are refunded from General Funds

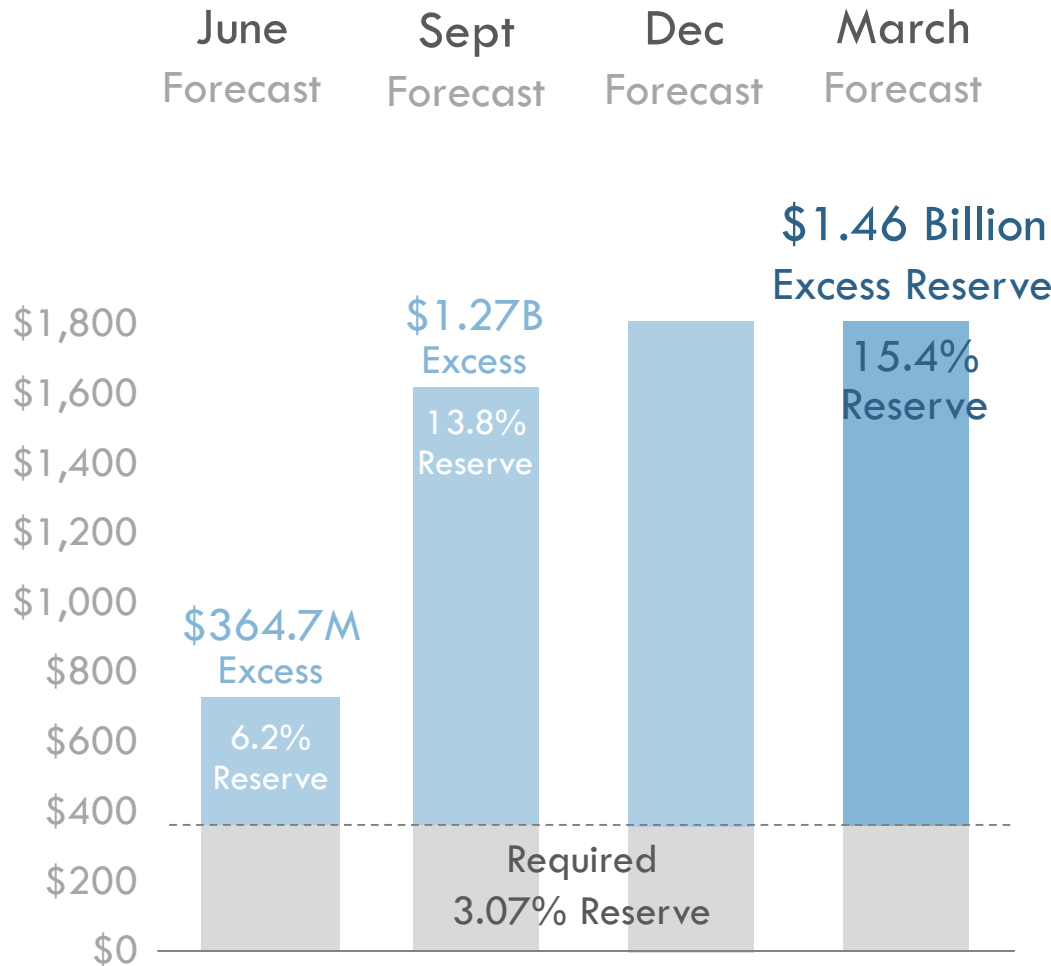
In a TABOR surplus situation...



Cash Fund dollars in = General Fund dollars out

Last Year | FY 2019-20 General Fund Reserve

Dollars in Millions



Changes since the May 2020 forecast update:

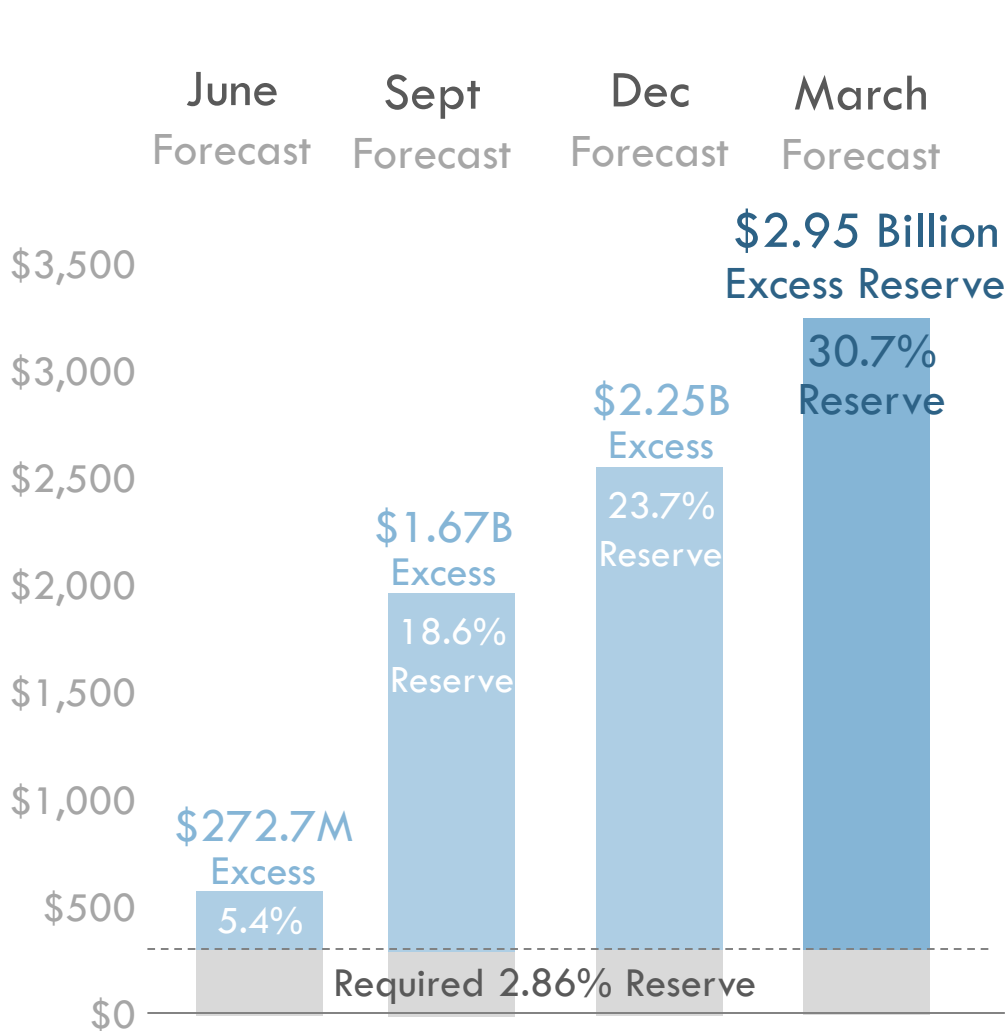
Appropriations reduced with budget balancing actions (June)

Net transfers from the General Fund also reduced with budget balancing legislation (June)

Revenue: 2019 income tax collections came in much stronger than expected (Sept)

Source: Legislative Council Staff forecasts based on current law. See Table 2 in the March 2021 forecast for more information.

Current Year | FY 2020-21 General Fund Revenue



Changes since May 2020 forecast update:

Beginning balance: +\$1.8 billion carried over from FY 2019-20

Revenue expectations increased

- Higher 2019 tax collections (Sept)
- Vaccine distribution (Dec)
- Additional federal stimulus (Mar)

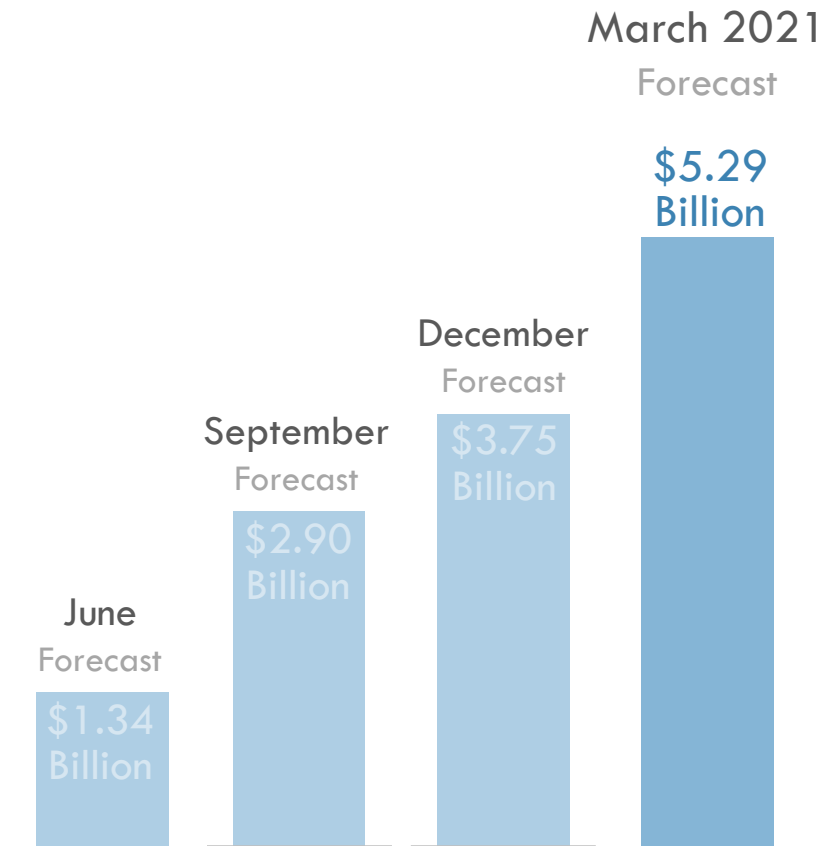
Net transfers and appropriations

- Reduced relative to FY 2019-20 levels when set budget (June)
- Increased with special session legislation, November election outcomes (Dec)
- Reduced appropriations, increased transfers with supplementals (Mar)

Source: Legislative Council Staff forecasts based on current law. See Table 2 in the March 2021 forecast for more information.

Next Year | FY 2021-22 Budget Outlook

Additional revenue available to spend or save above FY 2020-21 spending levels. Amounts hold FY 2020-21 appropriations constant and incorporate the revenue forecast, current law transfers, rebates and expenditures, and the 2.86% reserve requirement.



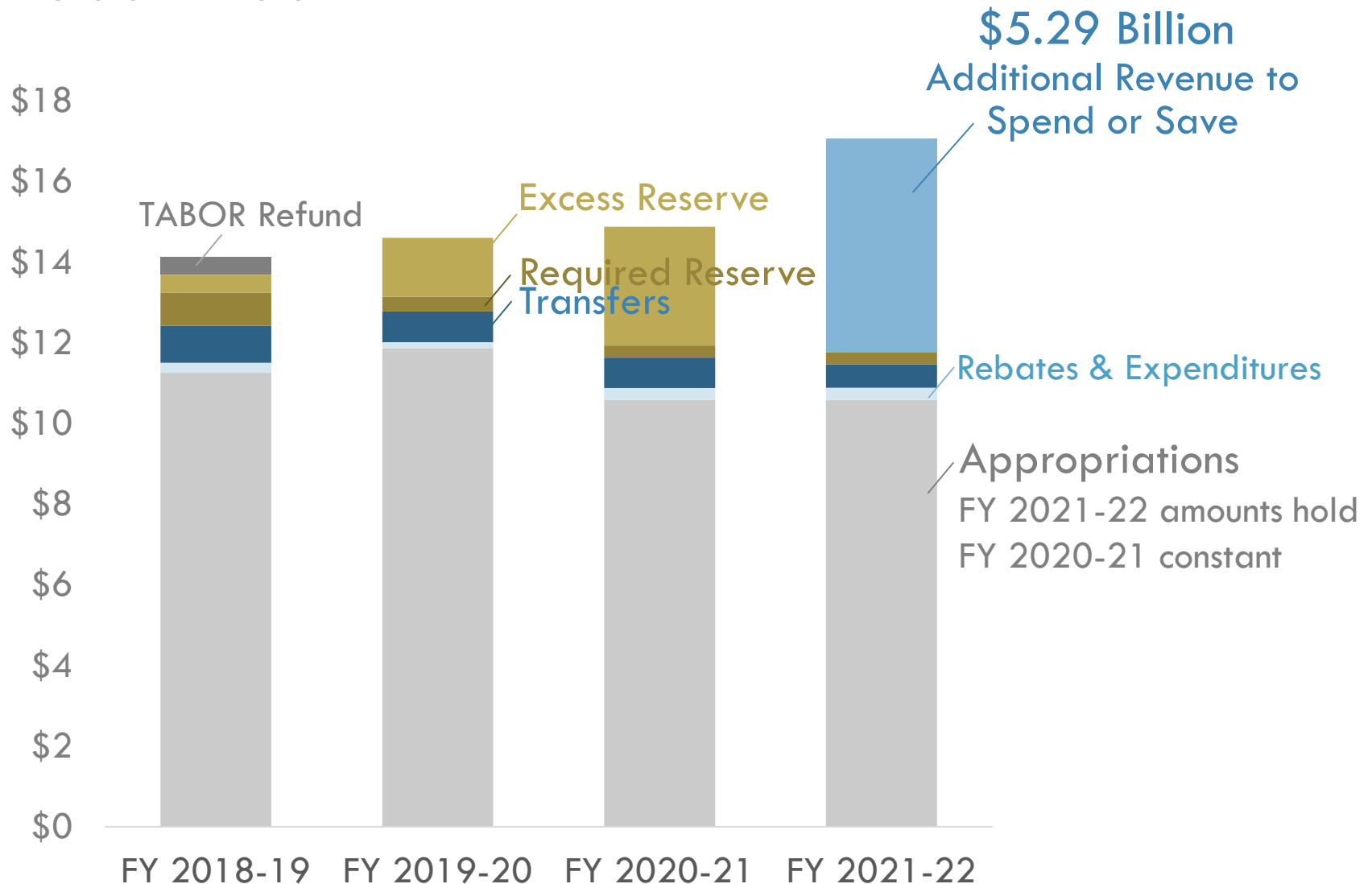
Outlook improved on higher beginning balance rolled over from FY 2020-21 and increased FY 2021-22 revenue expectations

Considerations

- Amounts do not account for caseload growth, inflationary, or other budgetary pressures
- Any changes made to FY 2020-21 budget will impact this amount
- Elevated uncertainty: Still learning about FY 2020-21 collections
- Amounts do not include federal American Rescue Plan funds

General Fund Budget (Spending or Saving)

Dollars in Billions



Source: Legislative Council Staff December 2020 forecast and current law.

Risks to the Forecast

Ongoing risks

- Pandemic's trajectory
- Extent of economic damage and its lasting effects (“scarring”)
- The full impacts of the pandemic recession and policy changes on income taxes still yet to be seen
- Additional federal stimulus: How much of a boost to consumer and business activity? What happens when the stimulus wears off?

Overall risks skewed to the upside

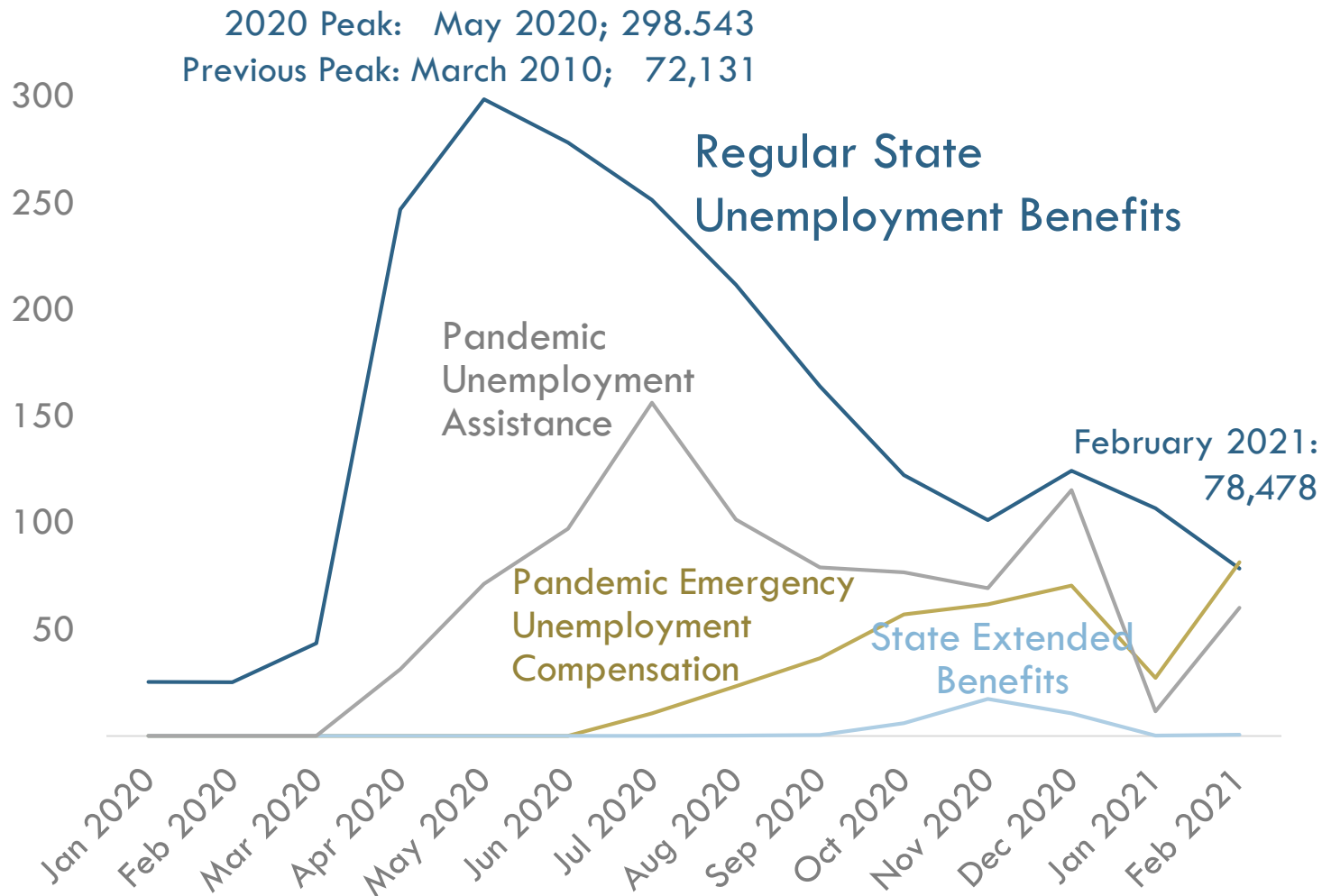
- Collections continue to surprise to the upside, additional stimulus, resiliency and innovation
- If upside risk materializes, revenue will be constrained by the Referendum C cap

Unemployment Insurance Trust Fund



Number of People Receiving Unemployment Insurance Benefits

Thousands of People, January 2020 through February 2021



Unemployment Insurance Trust Fund

Revenues, Benefits Paid, and Fund Balance

Dollars in Millions

	Actual FY 2019-20	Estimate FY 2020-21	Estimate FY 2021-22	Estimate FY 2022-23
Beginning Balance	\$1,104.1	\$412.2	(\$954.5)	(\$891.2)
Plus Income Received				
UI Premium	\$532.8	\$617.0	\$756.7	\$963.6
Solvency Surcharge	\$0.0	\$0.0	\$0.0	\$123.0
Interest	\$25.9	\$0.8	\$0.0	\$0.0
Total Revenues	\$558.7	\$617.8	\$756.7	\$1,086.7
Less Benefits Paid	\$1,268.5	\$1,984.6	\$693.4	\$674.8
Ending Balance	\$412.2	(\$954.5)	(\$891.2)	(\$479.3)
Solvency Ratio*	0.30%	-0.69%	-0.61%	-0.31%

Source: Legislative Council Staff March 2021 forecast. Totals may not sum due to rounding.

*Fund balance as a share of total annual private wages.

Questions?

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