



June 2024 | Legislative Council Staff

Economic & Revenue Forecast

Presentation to the Joint Budget Committee

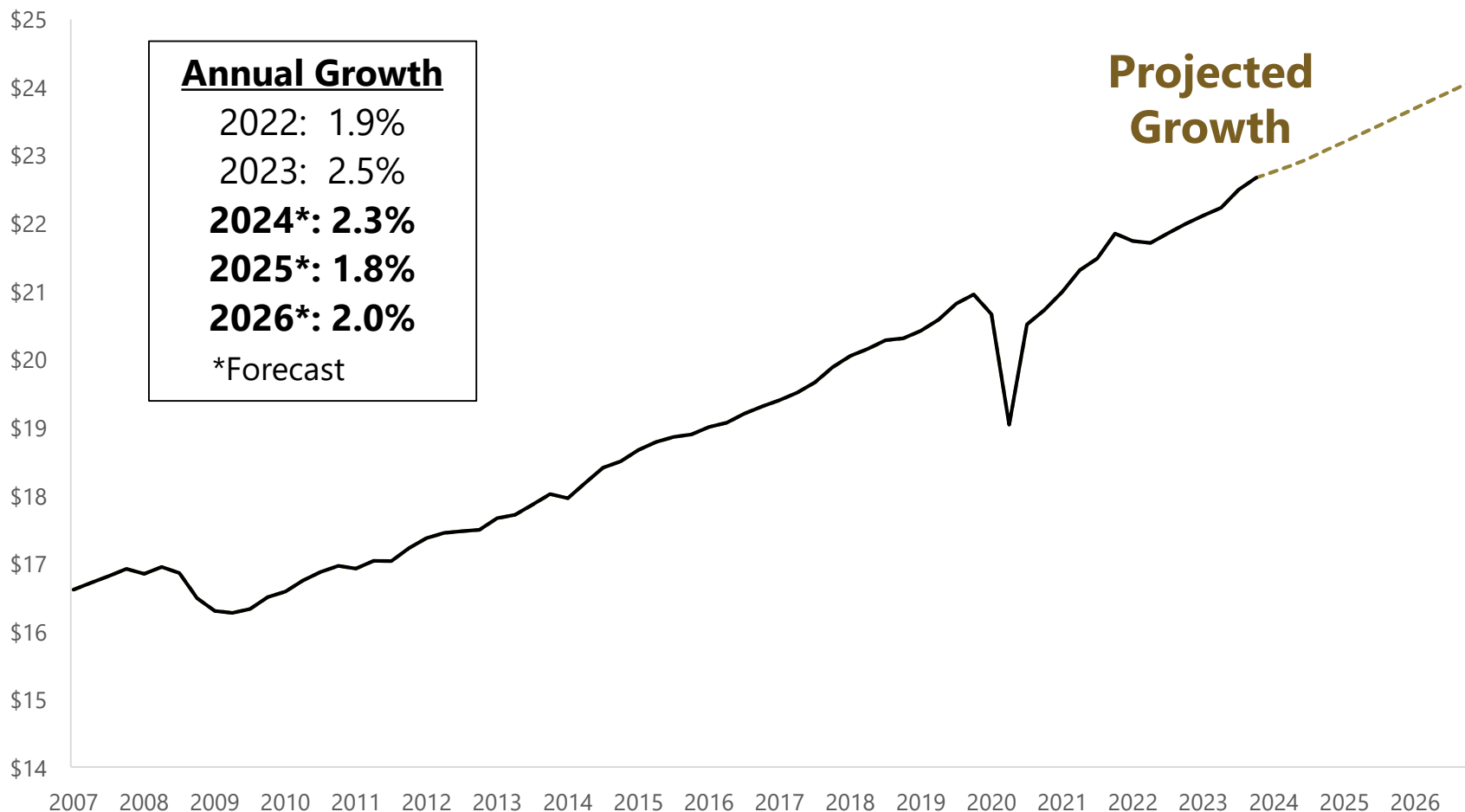
June 20, 2024

Economic Outlook



U.S economic growth exceeded expectations in 2023 but projected growth remains below trend.

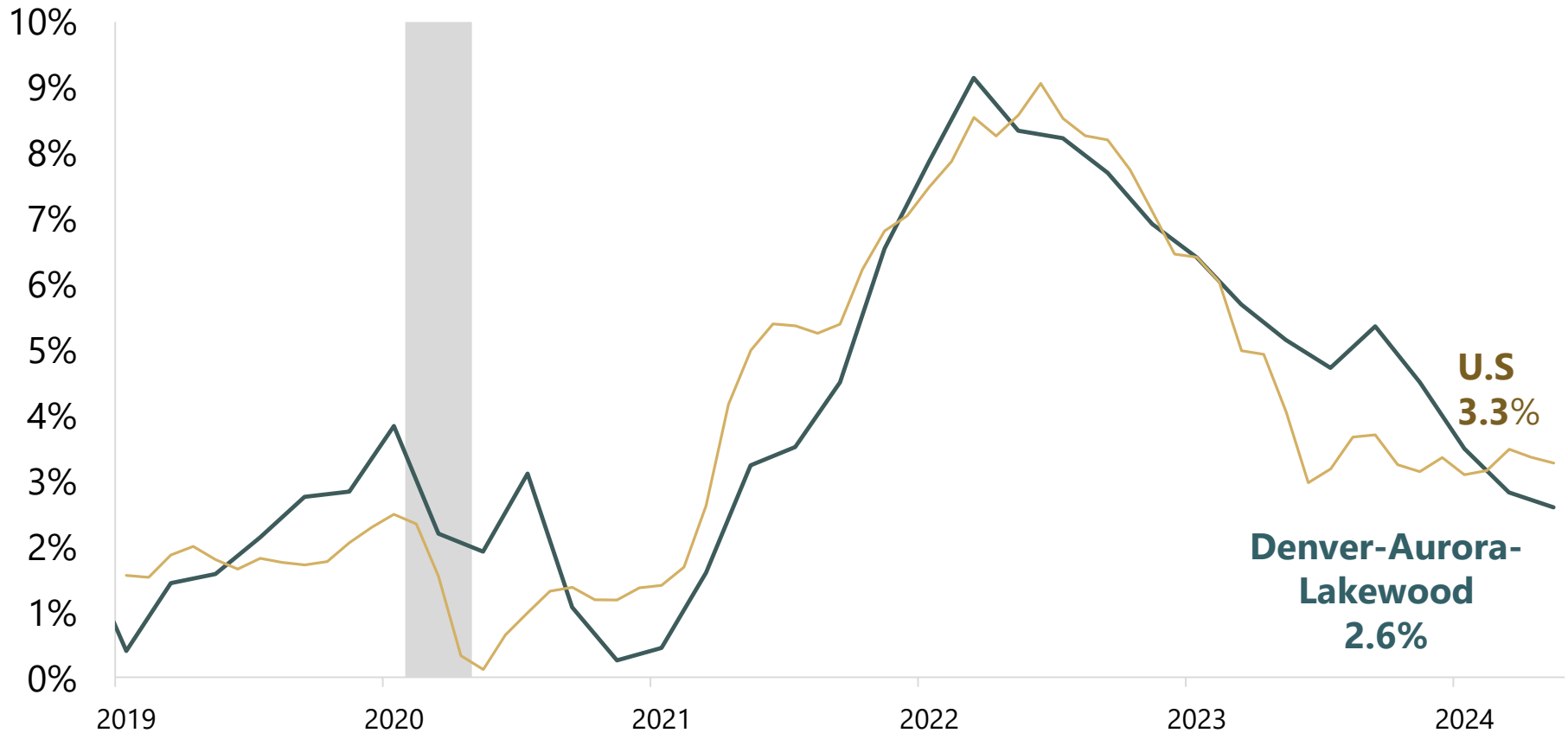
Real U.S. Gross Domestic Product
Trillions of Dollars, Adjusted for Inflation



Source: U.S. Bureau of Economic Analysis and Legislative Council Staff June 2024 projections. Real GDP is inflation-adjusted to chained 2017 levels and shown at seasonally adjusted annualized rates.

U.S. inflation has stabilized, while Colorado price increases continue to slow

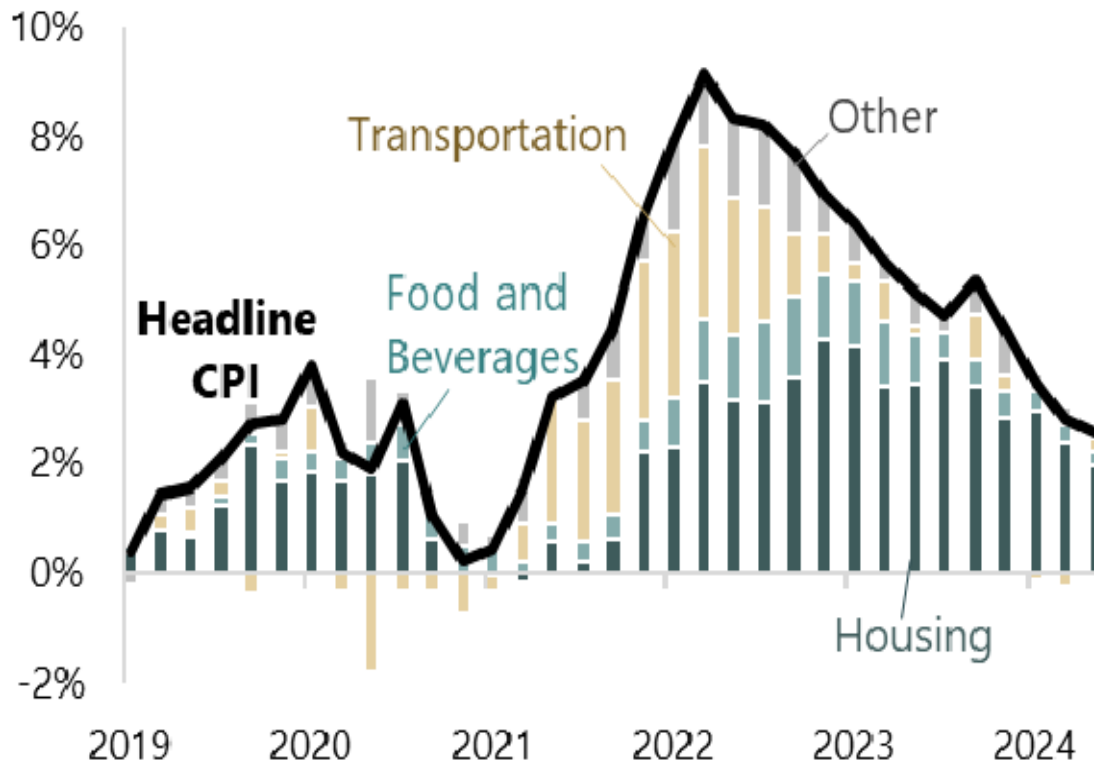
Headline CPI-U Inflation
Year-over-Year Change in Prices



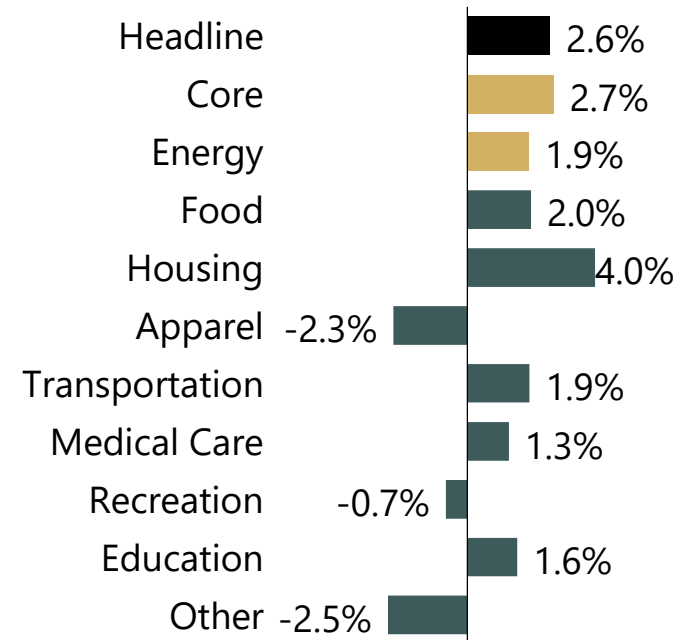
Source: U.S. Bureau of Labor Statistics. Data are through May 2024. Colorado inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area.

Prices gains have significantly slowed but housing prices continue to exert upward pressure

Contributions to Denver-Aurora-Lakewood CPI-U
Year-over-Year Change in Prices



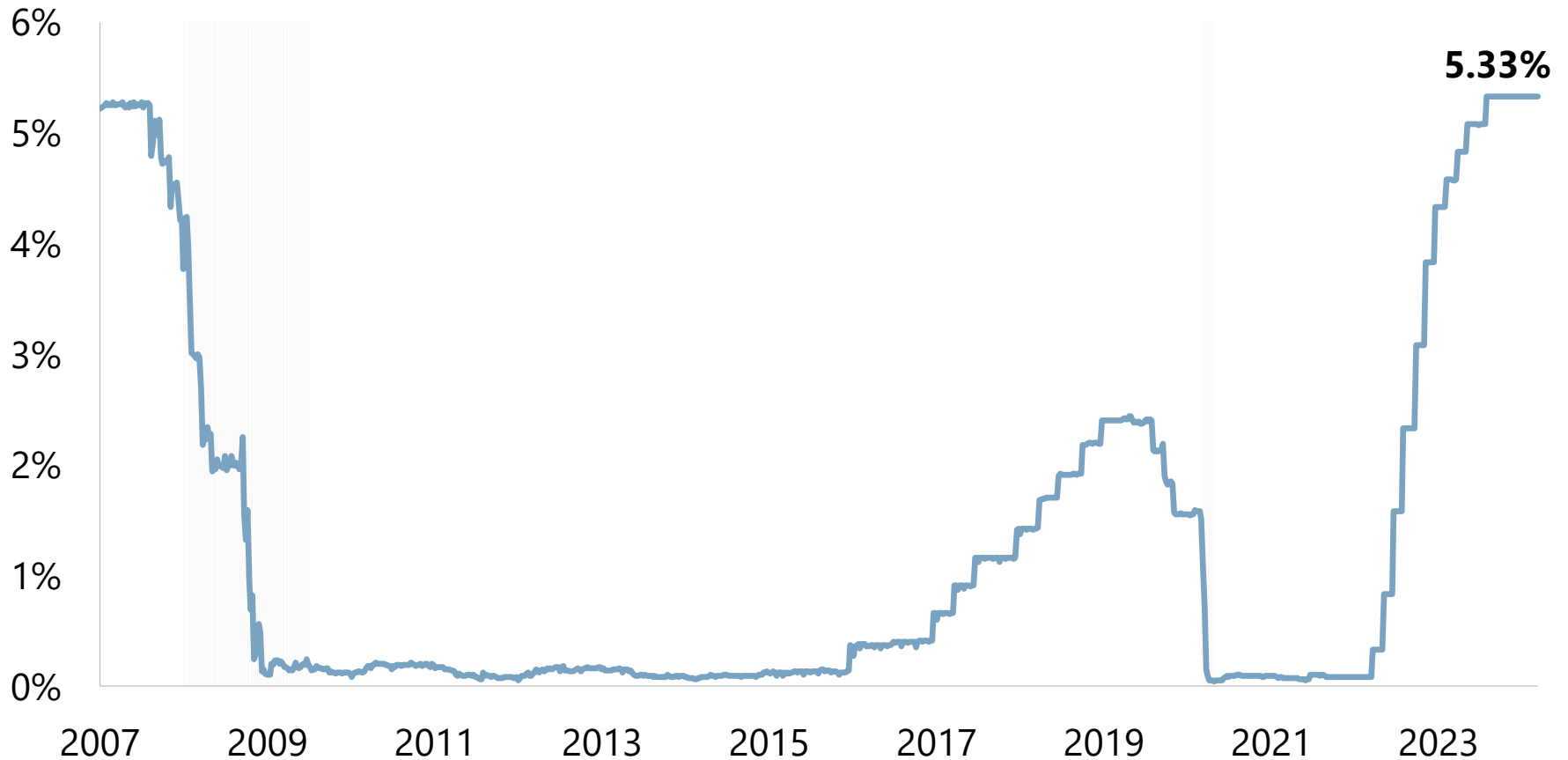
Selected Components, May 2024



Source: U.S. Bureau of Labor Statistics and LCS calculations.

Federal Reserve expected to start cutting interest rates in 2024

Effective Federal Funds Rate Percent

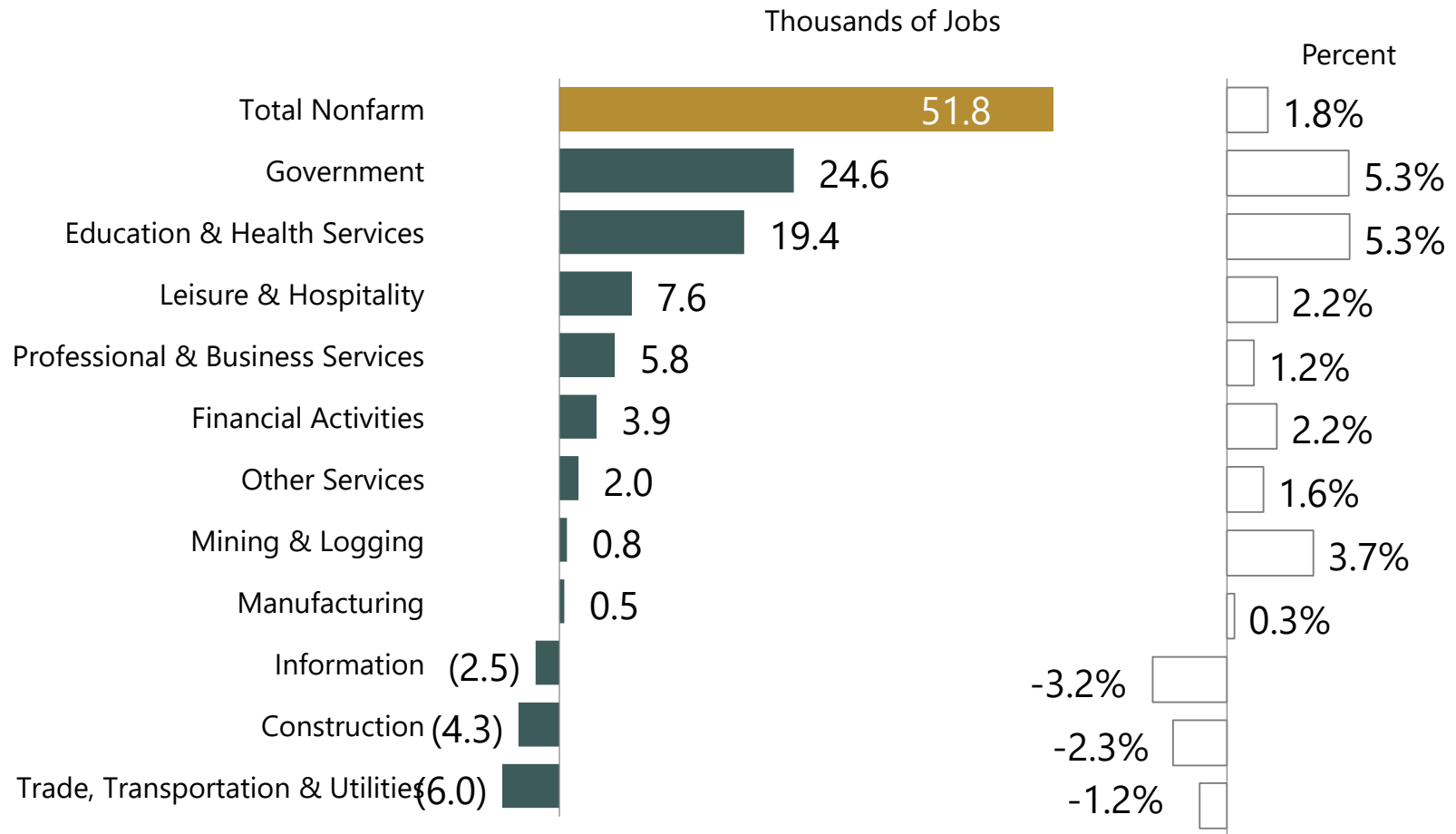


Source: Board of Governors of the Federal Reserve System, H.15 Selected Interest Rates. Bureau of Economic Analysis.

Colorado and U.S. labor markets remain healthy but are slowing

Colorado Job Gains and Losses by Industry

Year-over-Year Change, April 2024

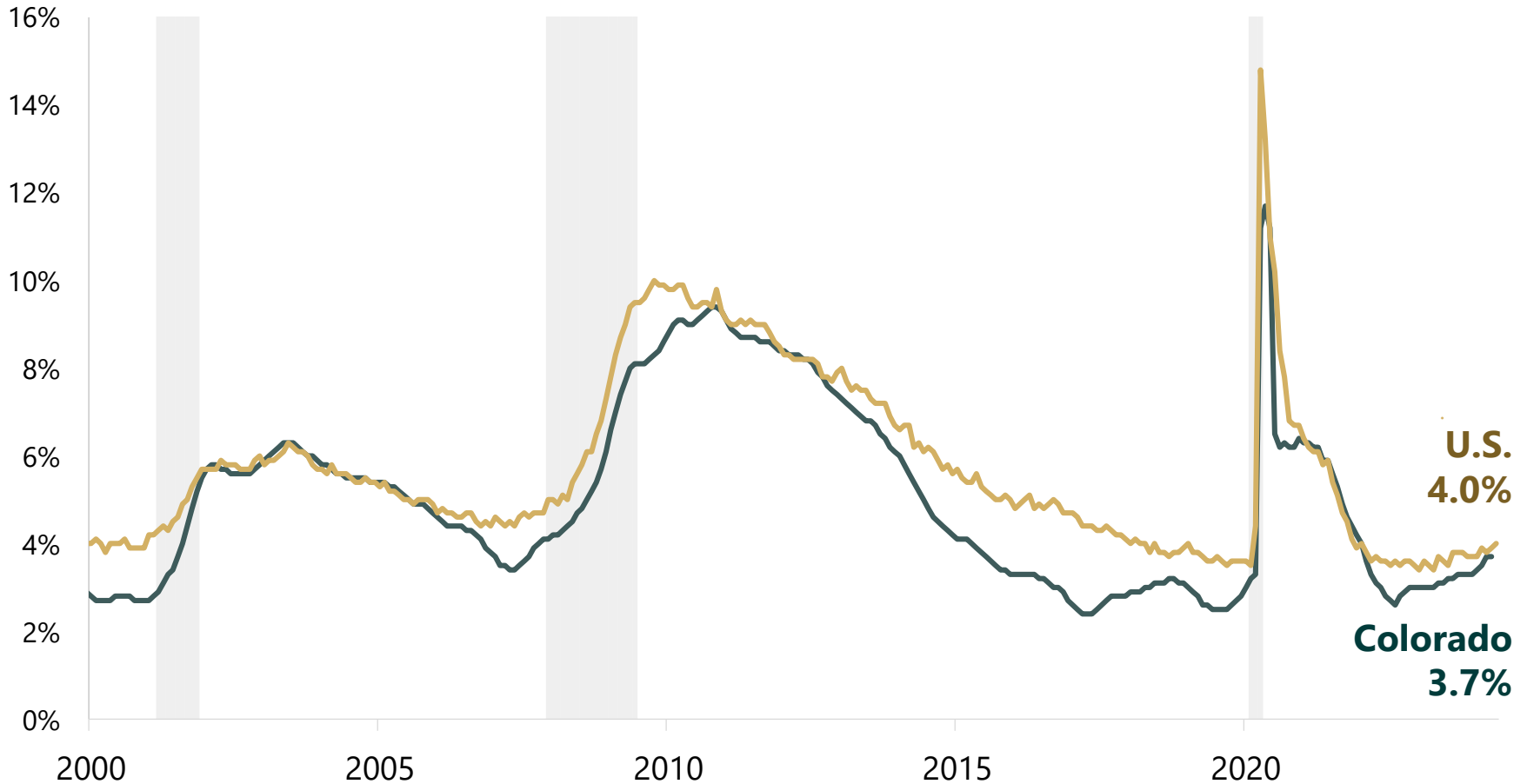


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted..

Colorado and U.S. unemployment rates remain low, but rates continue to tick up

Unemployment Rates

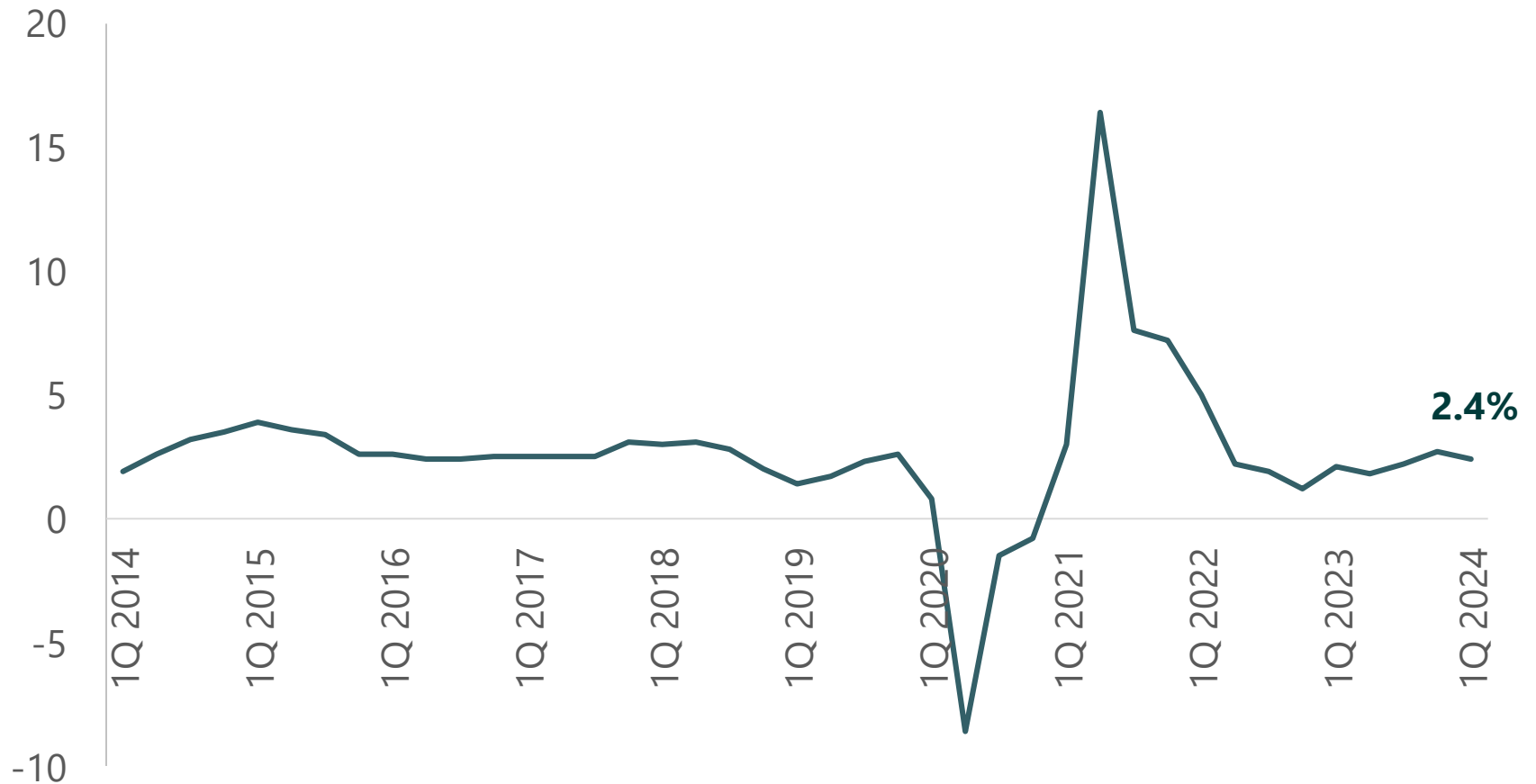
Percent



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. U.S. data are through May 2024. Colorado data are through April 2024.

Consumers are still buying but not as much

Real U.S. Personal Consumption Expenditures
Year-Over-Year Percent Change

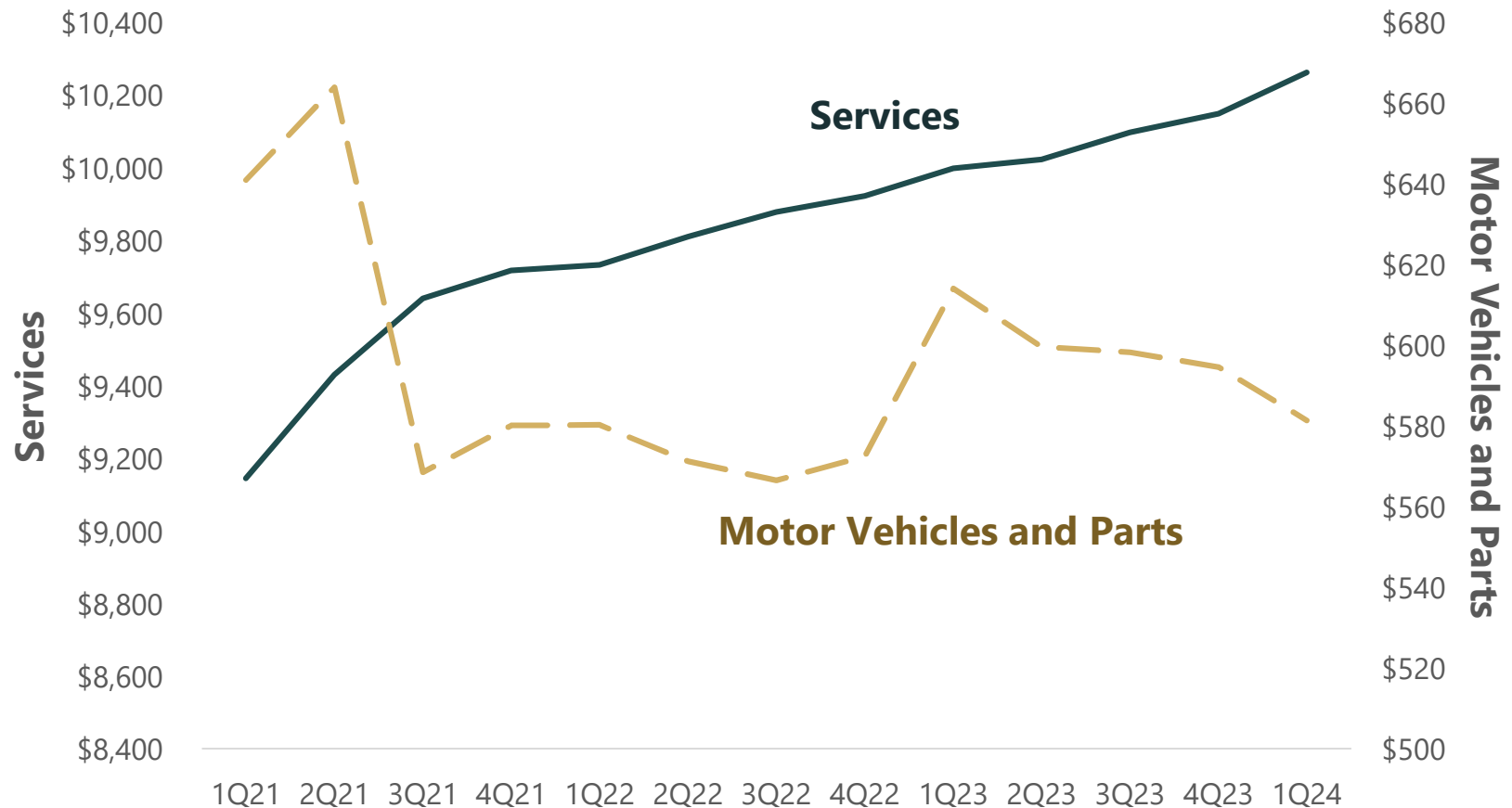


Source: U.S. Bureau of Economic Analysis.

Consumers are more selective on how they spend their money

U.S. Sales of Motor Vehicles and Parts Compared to Services

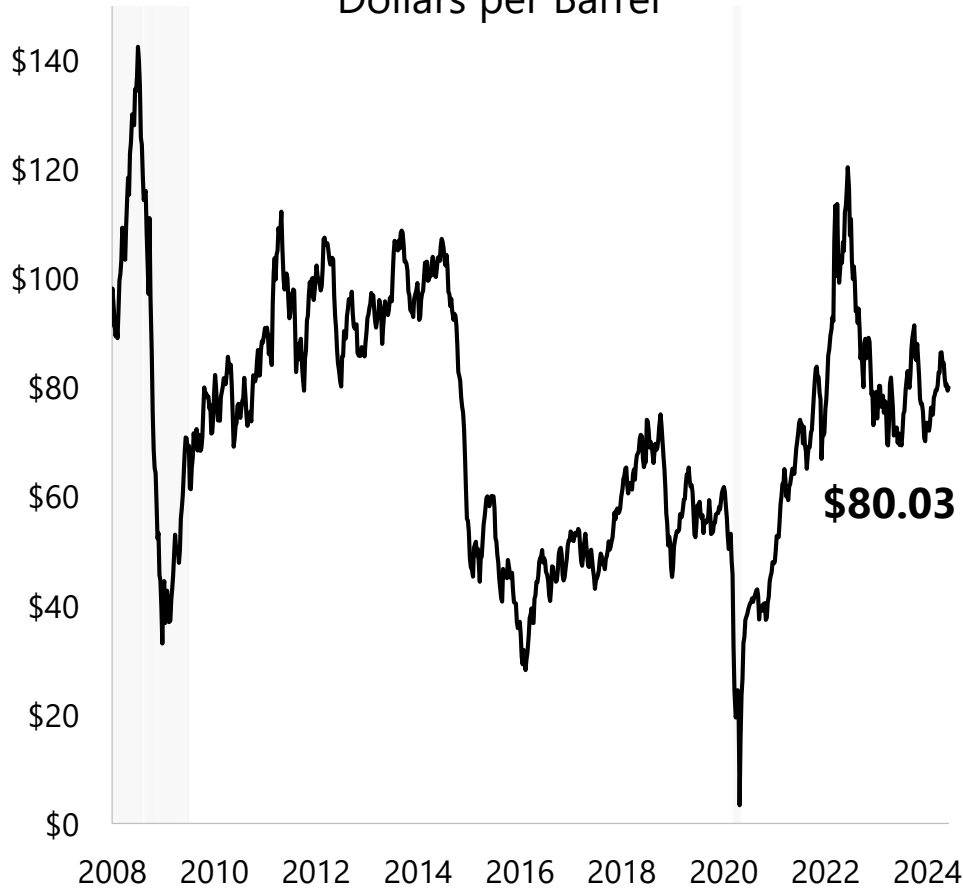
Billions of Dollars



Source: Bureau of Economic Analysis (BEA) Real Gross Domestic Product, Personal Consumption Expenditures. Data through March 2024.

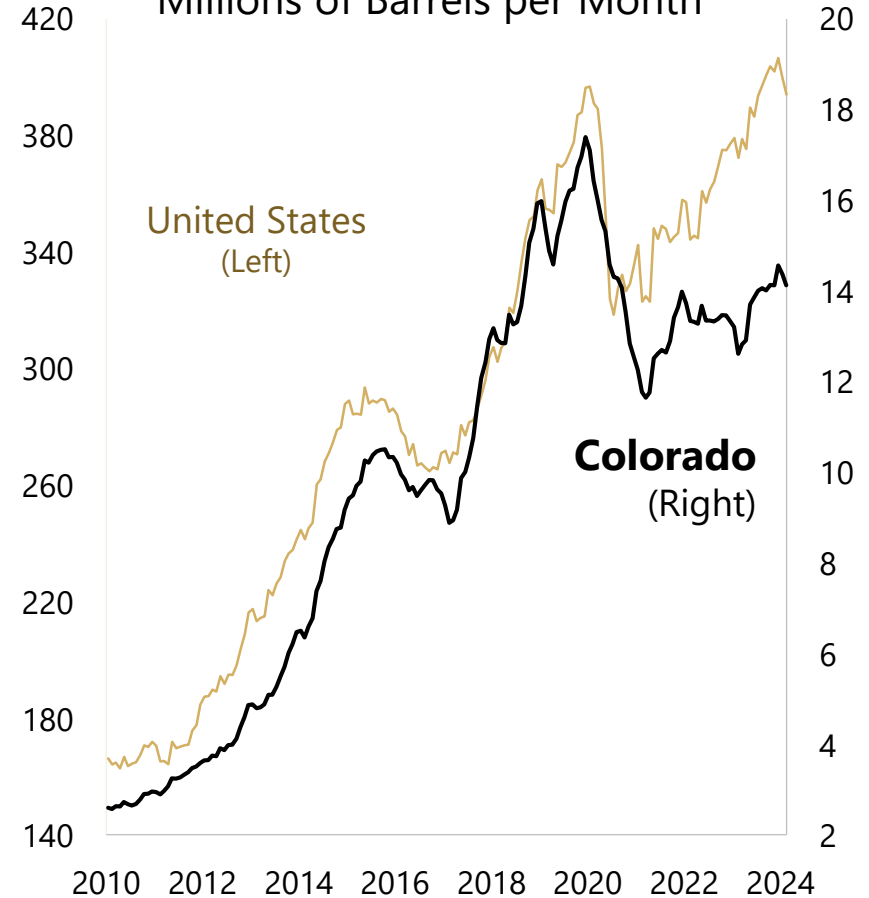
Oil market outlook is balanced

Crude Oil Price, West Texas Intermediate
Dollars per Barrel



Source: U.S. Energy Information Administration. Weekly average prices. Data are not seasonally adjusted and are through the week of May 31, 2024.

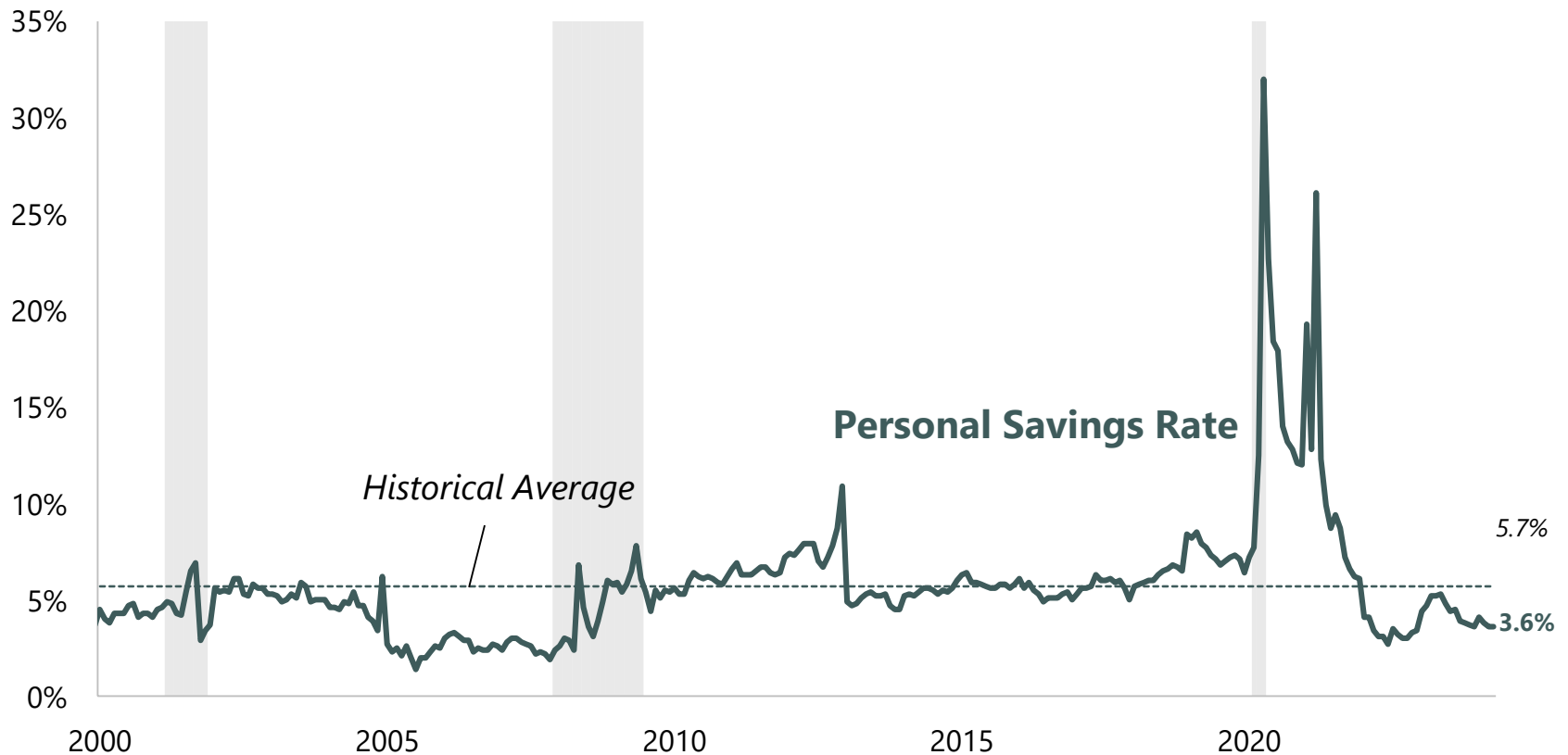
Crude Oil Production
Millions of Barrels per Month



Source: U.S. Energy Information Administration. Data are shown as a three-month moving average and are not seasonally adjusted. Data are through February 2024.

Household savings below the historical average

Personal Savings Rate Percent



Source: U.S. Bureau of Economic Analysis.

*The personal savings rate is calculated as the ratio of personal saving as a percentage of disposable personal income. Data are shown as seasonally adjusted annual rates.

Bottom Line: This forecast anticipates continued moderate expansion this year and through the forecast period. However, key economic indicators such as the labor market and consumer spending have been recently softening.

- **Downside Risks:**

- Deteriorating household finances hurt consumption
- High borrowing costs discourage investment
- Accelerating unemployment
- Poor global economy impacts U.S. growth

- **Upside Risks:**

- Faster resolution to inflationary pressures
- More accommodative monetary policy
- Resolution to international conflicts

General Fund Budget Outlook



General Fund revenue forecast downgraded significantly

Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes

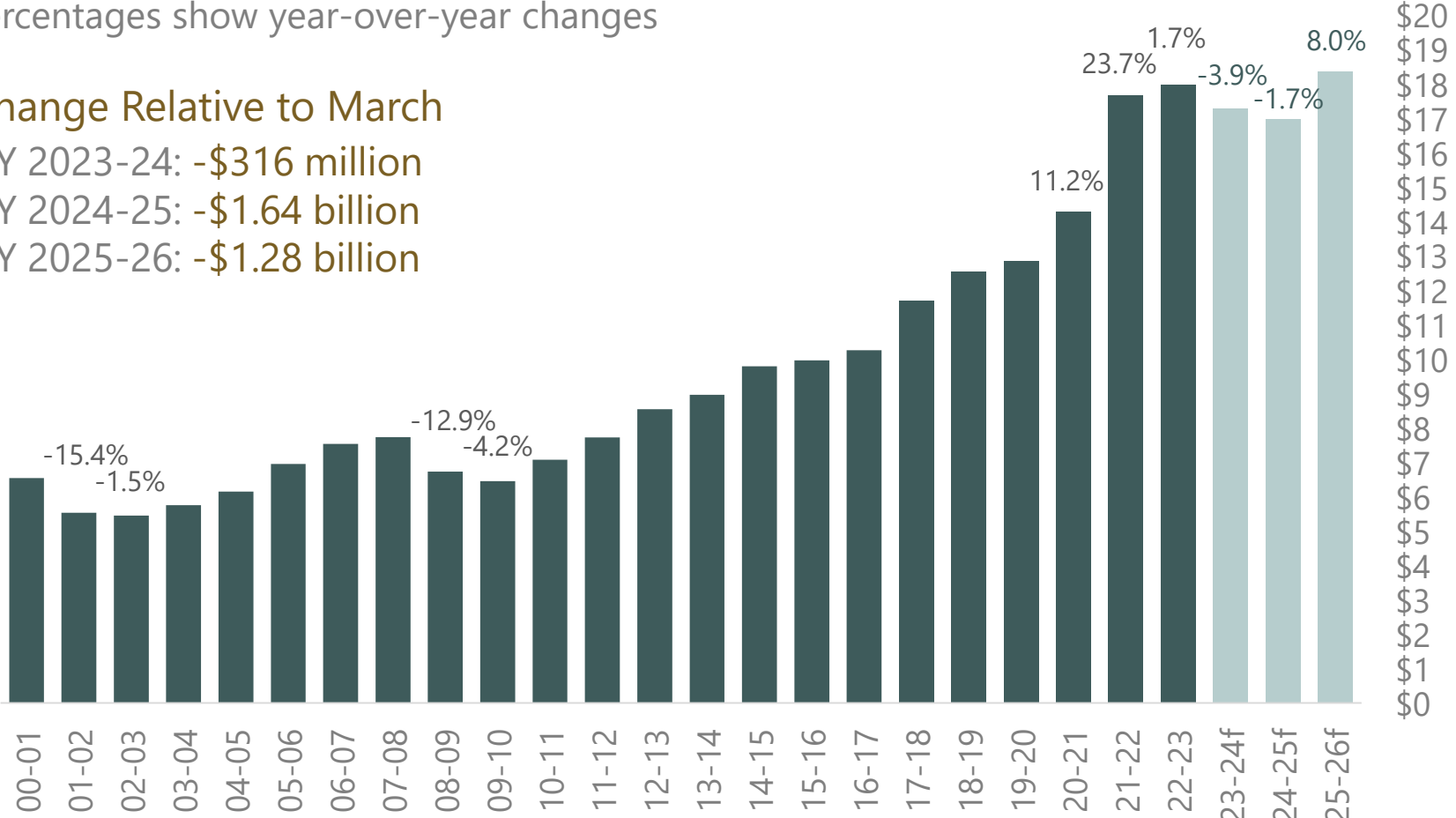
**June 2024
Expectations**

Change Relative to March

FY 2023-24: **-\$316 million**

FY 2024-25: **-\$1.64 billion**

FY 2025-26: **-\$1.28 billion**



Source: Colorado Office of the State Controller and Legislative Council Staff June 2024 forecast.

What happened?

March forecast was highly accurate: March, April, May collections arrived in line with expectations

- GF tracking above forecast by \$64M, +0.4%, through eleven months of FY 2023-24

Downward revisions are mostly from legislation

- Especially for FY 2023-24
- June forecasts use OSPB year-end accruals

Economic outlook also contributed to forecast downgrade

General Fund Revenue Legislative Adjustments

(Dollars in Millions; see Table 10 on page 28)

	FY 2023-24	FY 2024-25
HB 1311* Family Afford. Credit	(\$327.0)	(\$648.0)
HB 1134* Various, incl. EITC	(\$44.2)	(\$136.3)
HB 1052 Senior Housing	(\$33.8)	(\$33.8)
HB 1312 Care Workers Credit	-	(\$21.2)
HB 1340 Higher Ed. Credit	-	(\$18.1)
HB 1470 Health Ins. Enterprise	\$15.7	\$17.3
All Other Legislation	(\$0.4)	(\$23.7)
Total	(\$389.7)	(\$899.8)

Also: HB 24-1390 moves Proposition FF revenue (\$132M) out of the General Fund beginning in FY 2024-25.

*Assumes both credits are triggered on in full.

Forecast for TABOR CF revenue revised down

FY 2023-24: \$2.77 billion, +0.5%

FY 2024-25: \$2.90 billion, +4.8%

FY 2025-26: \$2.98 billion, +2.6%

Revised down by about \$80M in all three years

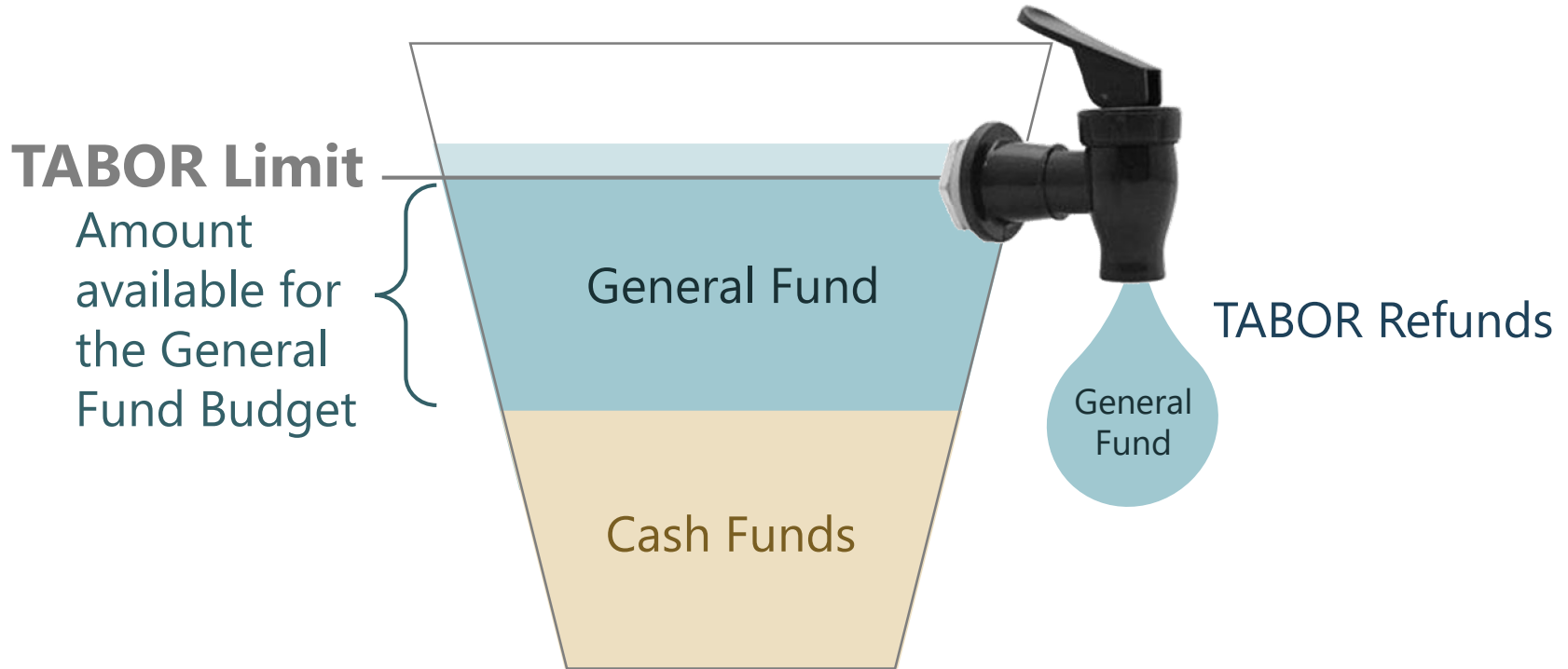
Reductions mostly due to legislation:

- HB 1469 reduced gaming forecast by about \$31M/year
- HB 1409 reduced other CF forecast by about \$25M/year
- rest of the downgrade mostly motor fuel taxes

About half of expected FY 2024-25 growth is from road safety surcharge, road usage fees

TABOR Refunds are paid from the General Fund

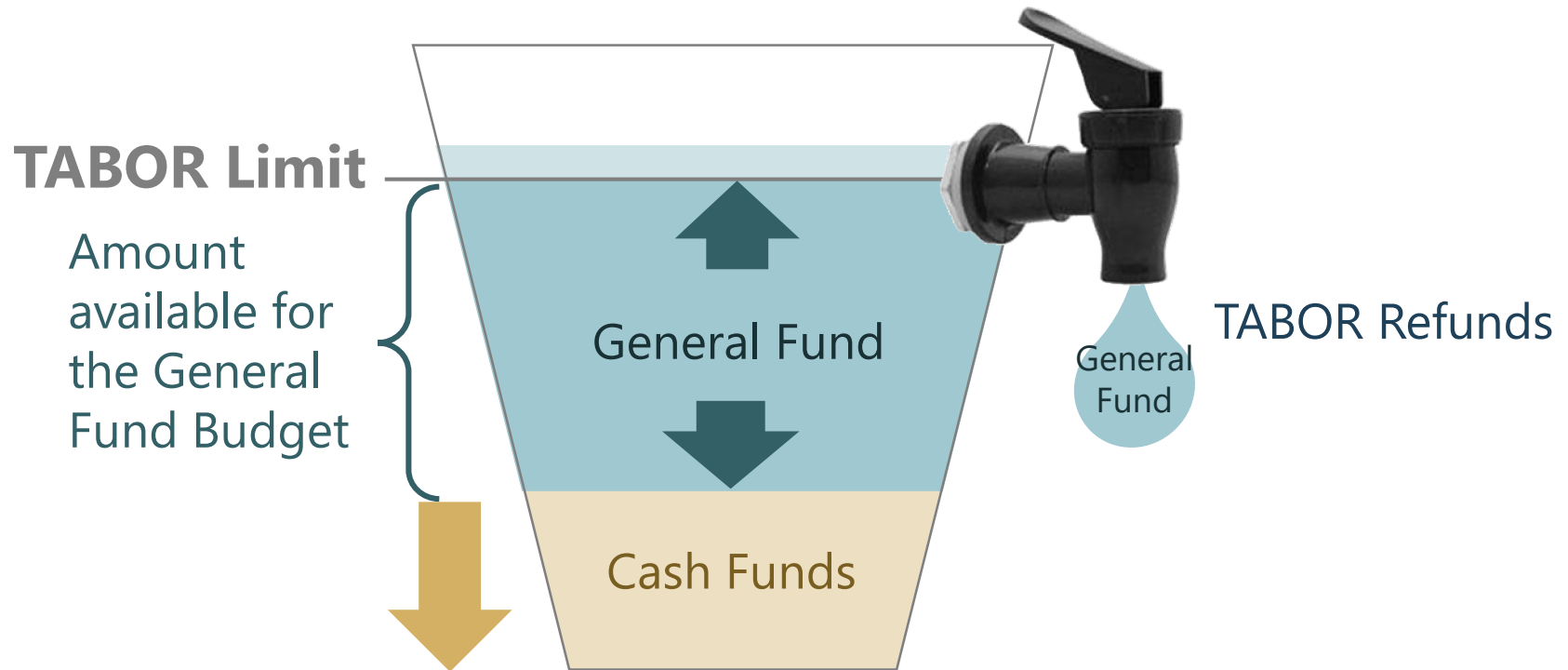
In a TABOR surplus situation...



Cash Fund dollars in = General Fund dollars out

TABOR Refunds are paid from the General Fund

In a TABOR surplus situation...



Less Cash Fund Revenue = More General Fund Budget Space*

**Provided that General Fund appropriations are not needed to offset lost cash fund revenue.*

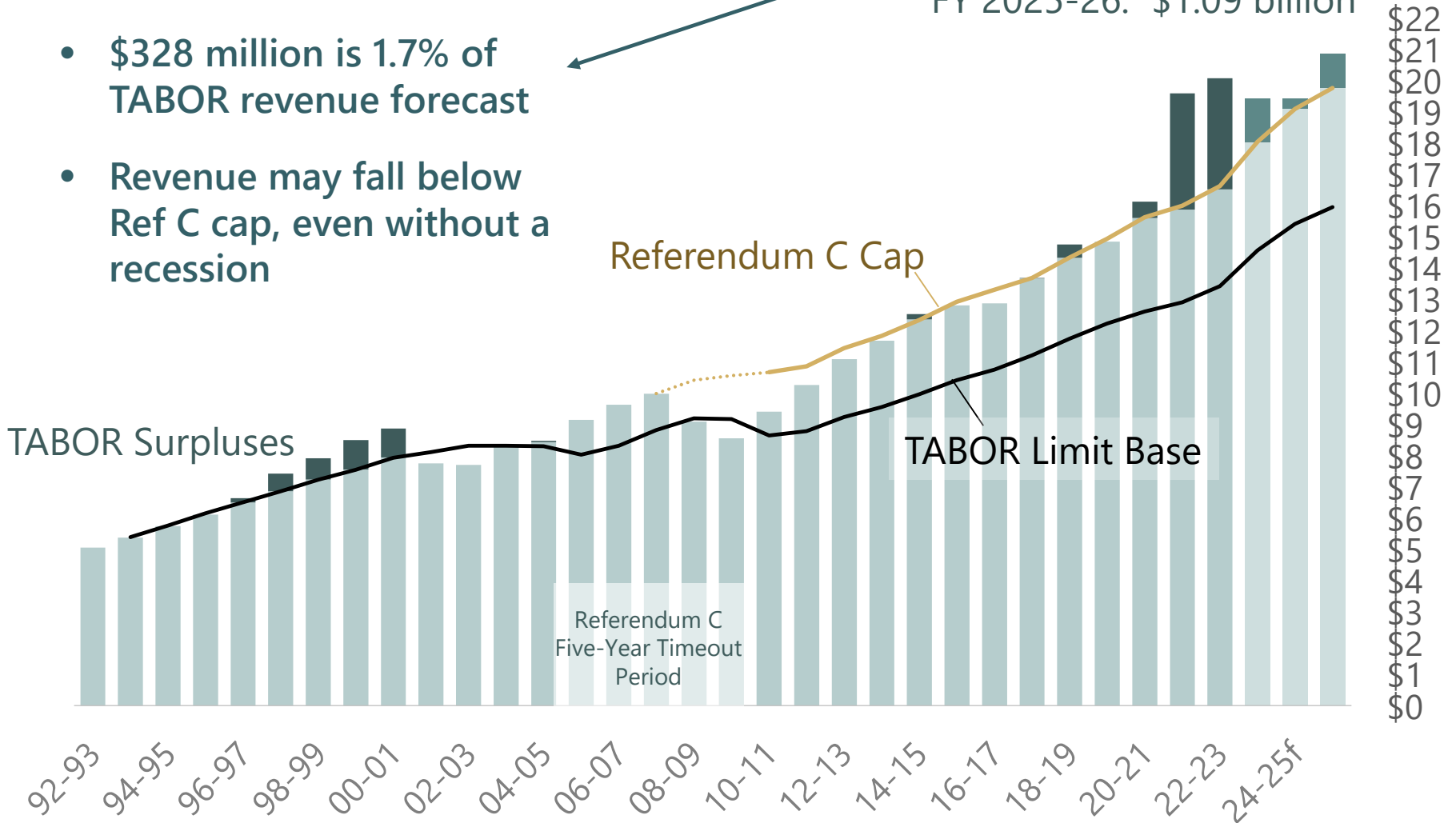
TABOR Outlook

Revenue Subject to TABOR
Dollars in Billions

Revenue Above the Ref C Cap

FY 2022-23: \$3.56 billion
 FY 2023-24: \$1.41 billion
 FY 2024-25: \$0.33 billion
 FY 2025-26: \$1.09 billion

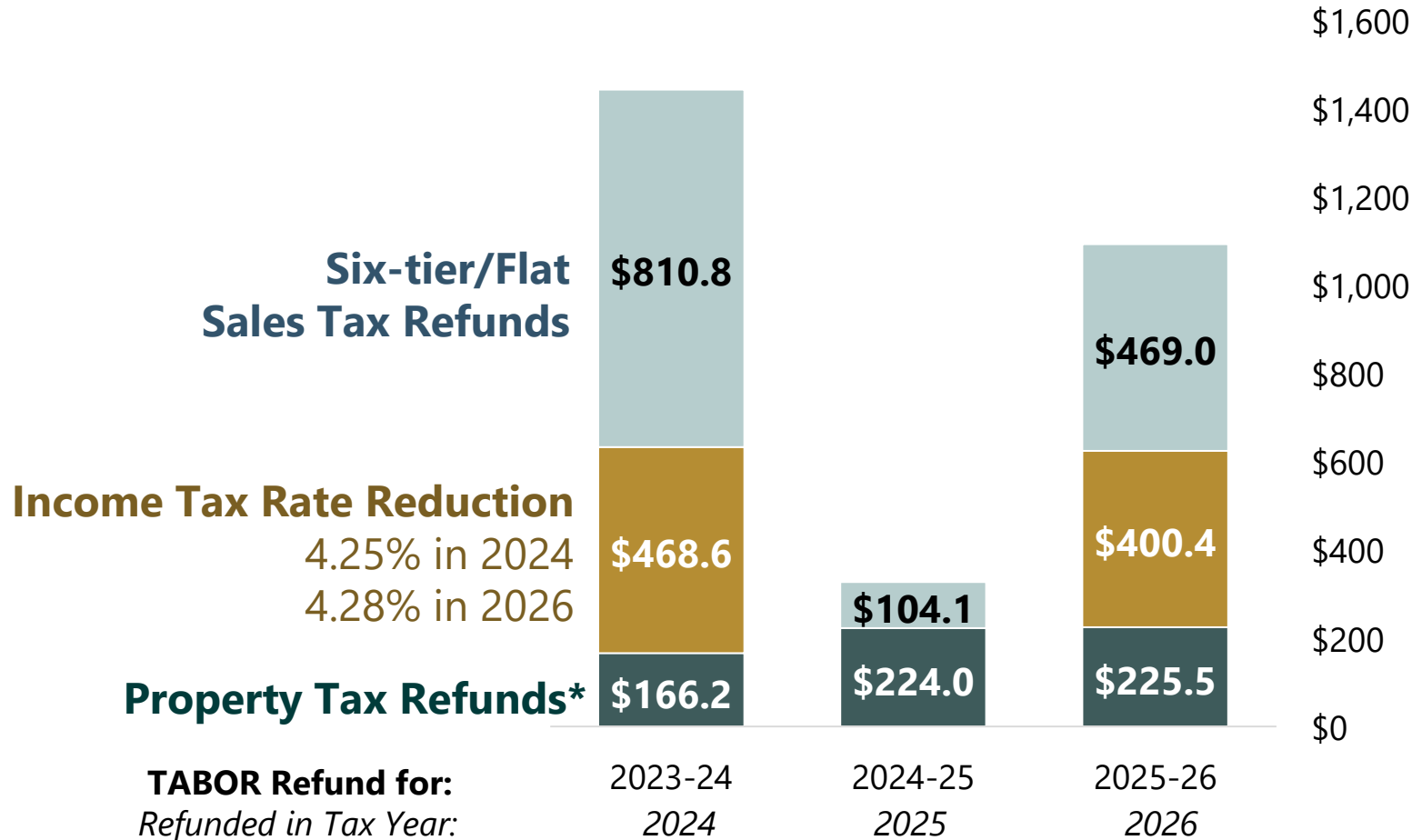
- \$328 million is 1.7% of TABOR revenue forecast
- Revenue may fall below Ref C cap, even without a recession



Source: Colorado Office of the State Controller and Legislative Council Staff June 2024 forecast.

Projected TABOR Refund Mechanisms

Dollars in Millions



Source: Legislative Council Staff June 2024 forecast.

Other TABOR considerations

FY 2023-24 refund obligation includes \$33.9M for FY21, FY22, FY23 insurance premium tax previously accounted as exempt

- HB 24-1470 now credits this revenue to the GF instead

Sports betting tax may or may not exceed the Prop DD voter authorization (\$29M) in FY 2023-24, likely will in FY 2024-25

- HB 24-1436 refers a measure asking to retain all revenue

Prop FF revenue is expected to exceed the 2022 Blue Book estimate in FY 2023-24, which will trigger a refund requirement if voters do not approve a measure to retain the excess

- Blue Book estimated \$100.7M, forecast now \$127.1M
- Timing makes this difficult to predict, even now

Legislation Affecting the Budget Overview

FY 2024-25 Long Bill (HB 24-1430), orbital bills, appropriations in other legislation

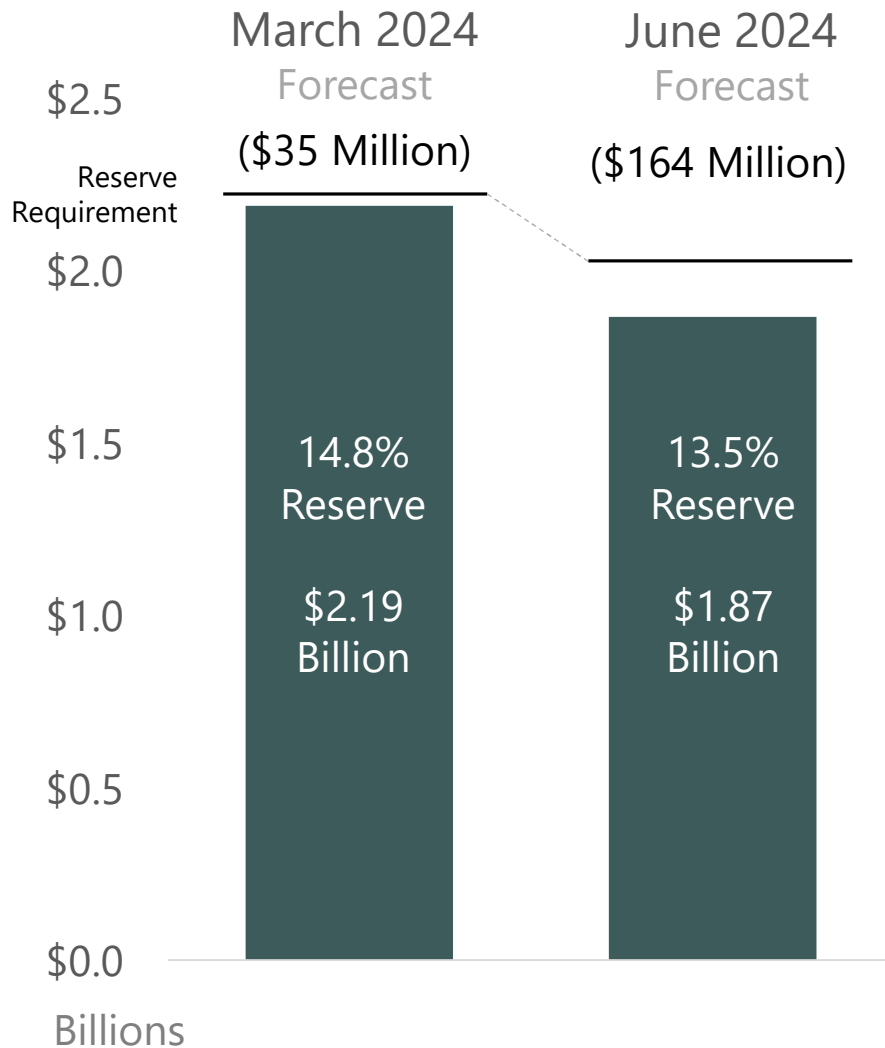
HB 24-1466 (ARPA Swap Bill):

- Transfers \$1.39 billion out of the GF in FY 2023-24
- Reduces GF appropriations by \$1.02 billion in FY 2023-24
- Reduces GF appropriations by \$0.59 billion in FY 2024-25
- Increases GF reserve calculation by \$56.5M in FY 2024-25

HB 24-1231 decreases the GF reserve by \$41.25M beginning in FY 2023-24 (held in escrow in a cash fund)

HB 24-1390 moves Healthy School Meals Program and Prop FF revenue out of the General Fund in FY 2024-25

Current Year | FY 2023-24 General Fund Reserve



Changes since the March forecast:

Net \$128M reduction in GF reserve relative to requirement

HB 1466 reduced GF position by **-\$224M** (net impacts of transfer, change to appropriations, reserve requirement)

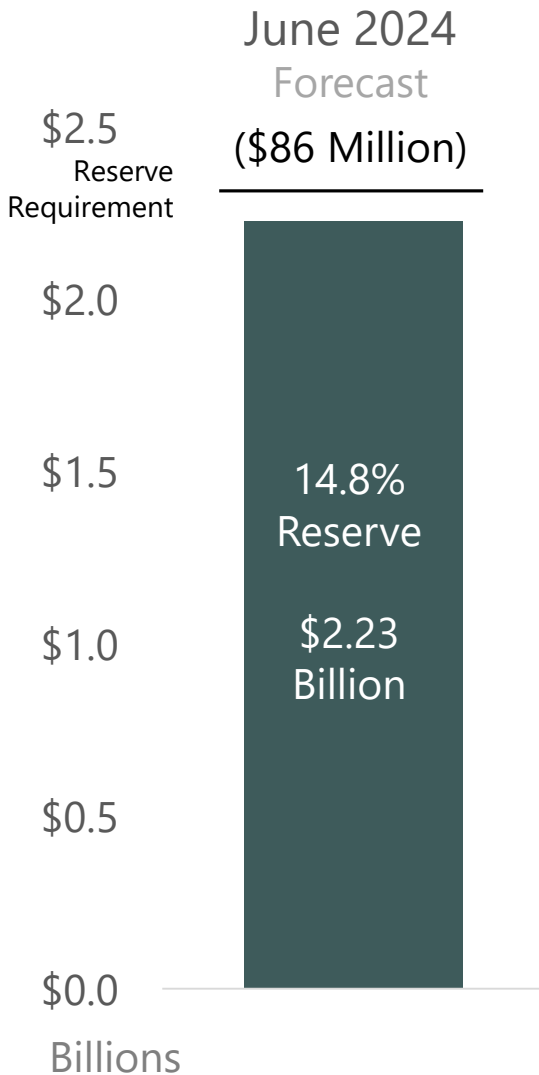
HIAE refund obligation -\$34M

Less pressure from TABOR, mostly due to CF forecast **+\$81M**

HB 1231 decreased reserve requirement **+\$41M**

Source: Legislative Council Staff forecasts based on current law.

Next Year | FY 2024-25 General Fund Reserve



Changes since the March forecast
(Scenario A: \$938M):

Beginning balanced reduced by -\$323M

GF appropriations and reserve requirement increased; -\$461M (Long Bill, etc.)

Healthy School Meals moved out of GF
(est. at -\$104M in March, now appx. -\$130M)

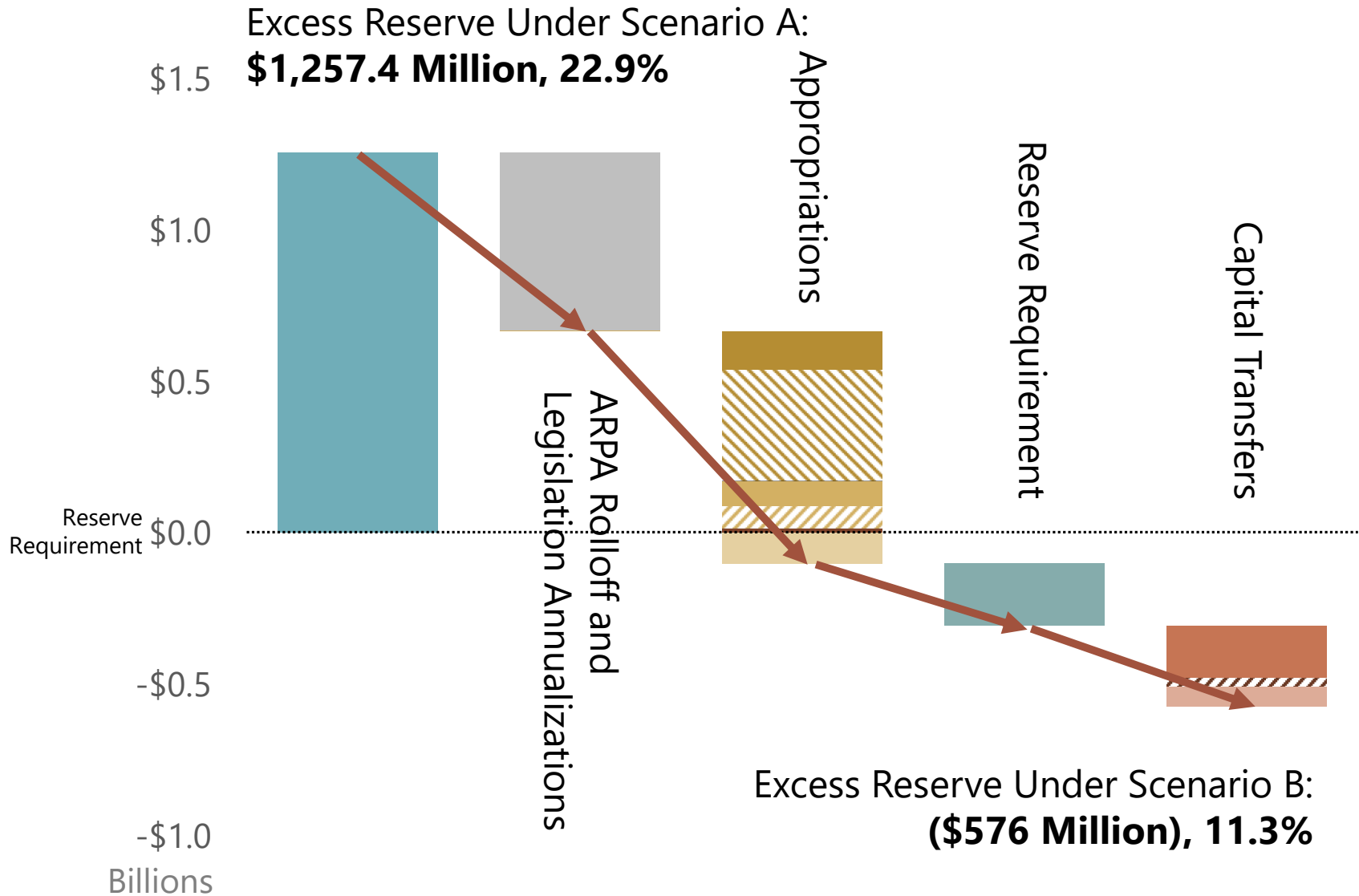
Net transfers decreased balance by -\$192M,
mostly for capital projects

Less pressure from TABOR, mostly due to CF
forecast **+\$78M**

HB 1231 decreased reserve requirement
+\$41M

Rebates forecast reduced; +\$14M (OAP)

Budget Year | FY 2025-26 **Scenarios A and B**



Source: Legislative Council Staff forecasts based on current law.

FY 2023-24 Corrections for SEF Transfers

Amendment 23 requires one-third of one percent of taxable income to be transferred to the SEF in each state fiscal year

- LCS has an administrative role in directing these transfers
- Taxable income is never reported on a fiscal year basis

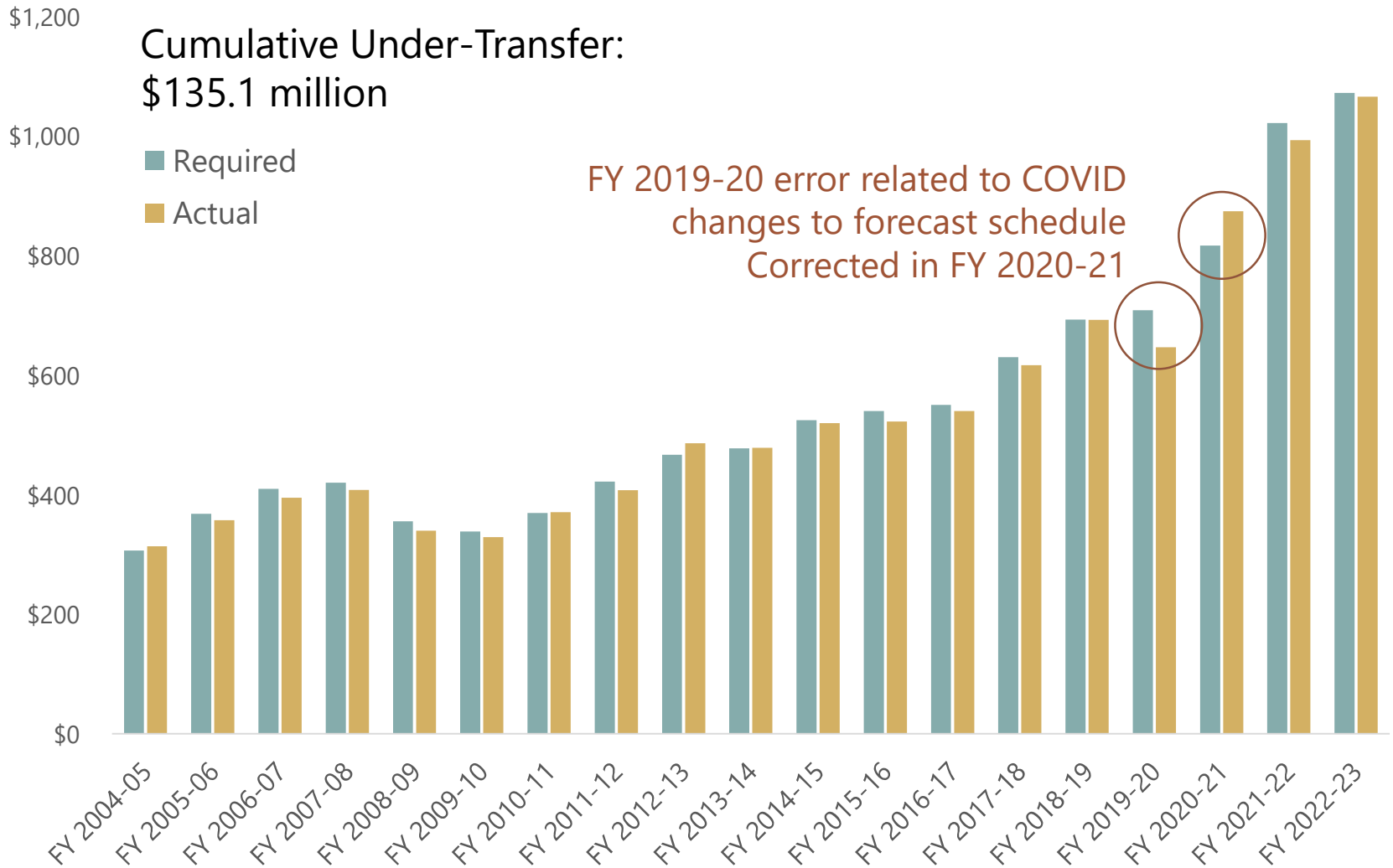
Statute acknowledges that errors will occur and should be subsequently corrected

LCS now identifies \$135.1 million in cumulative under-transfers between FY 2004-05 and FY 2022-23 (1.3%)

- Forecast includes an adjustment to correct this error, with the goal of “closing” transfers for these years

FY 2023-24 Corrections for SEF Transfers

Nominal Dollars in Millions



Source: "Corrections of Prior-Year Transfers to the State Education Fund." June 2024 LCS Memorandum, available [here](#).

Forecast Takeaways

Tax policy changes make it more likely that revenue will fall below the Ref C cap

General Fund projected to end FY 2023-24 and FY 2024-25 near the reserve requirement, but below it in both years

FY 2025-26 budget will juggle end of ARPA support, rising costs for core gov't operations, and the reserve requirement

Questions?

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