



December 2024 | Legislative Council Staff
Economic & Revenue Forecast

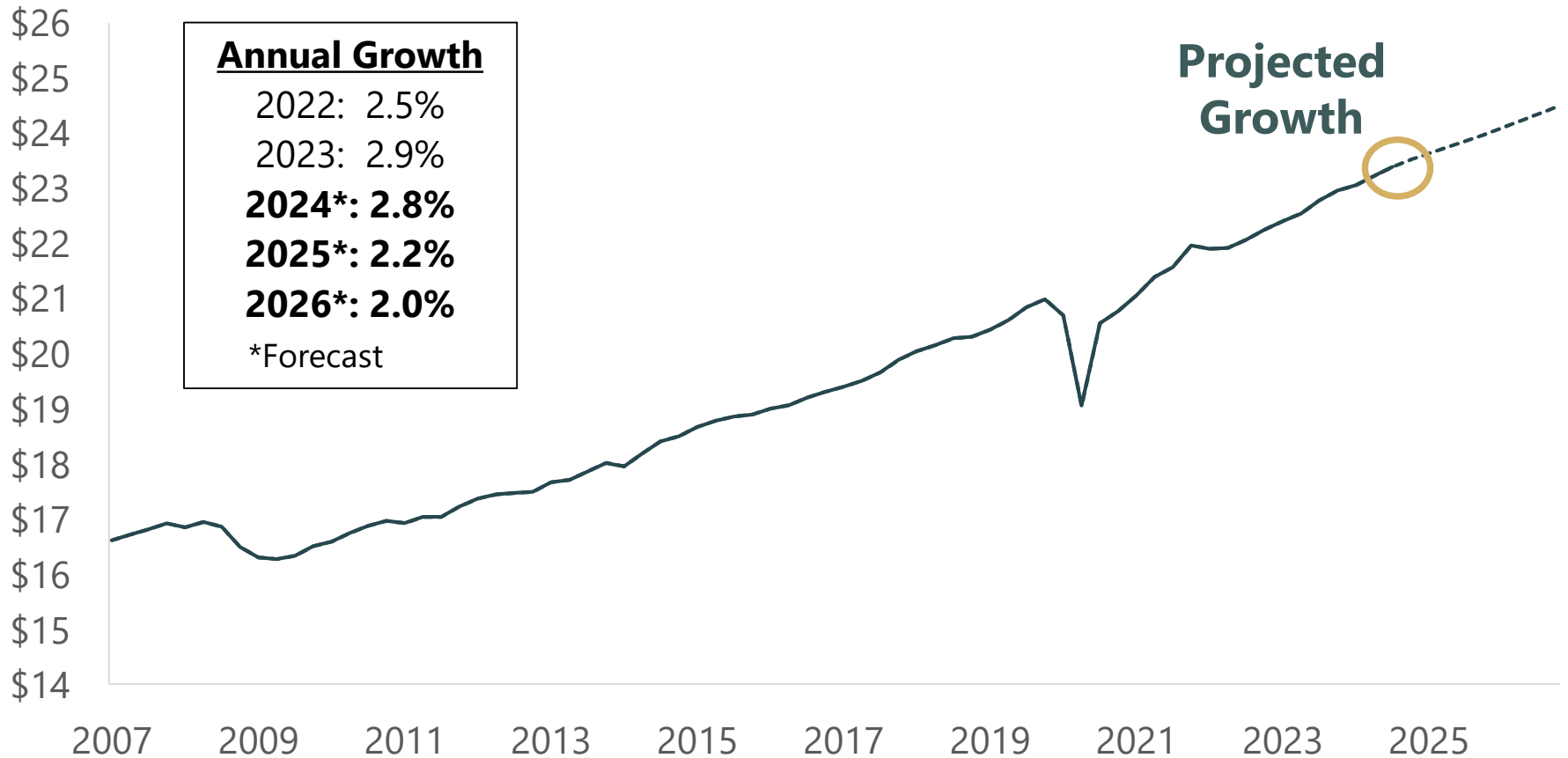
Presentation to the Joint Budget Committee
December 19, 2024

Economic Outlook



U.S. economic continues to grow at moderate pace, expectations upgraded from September

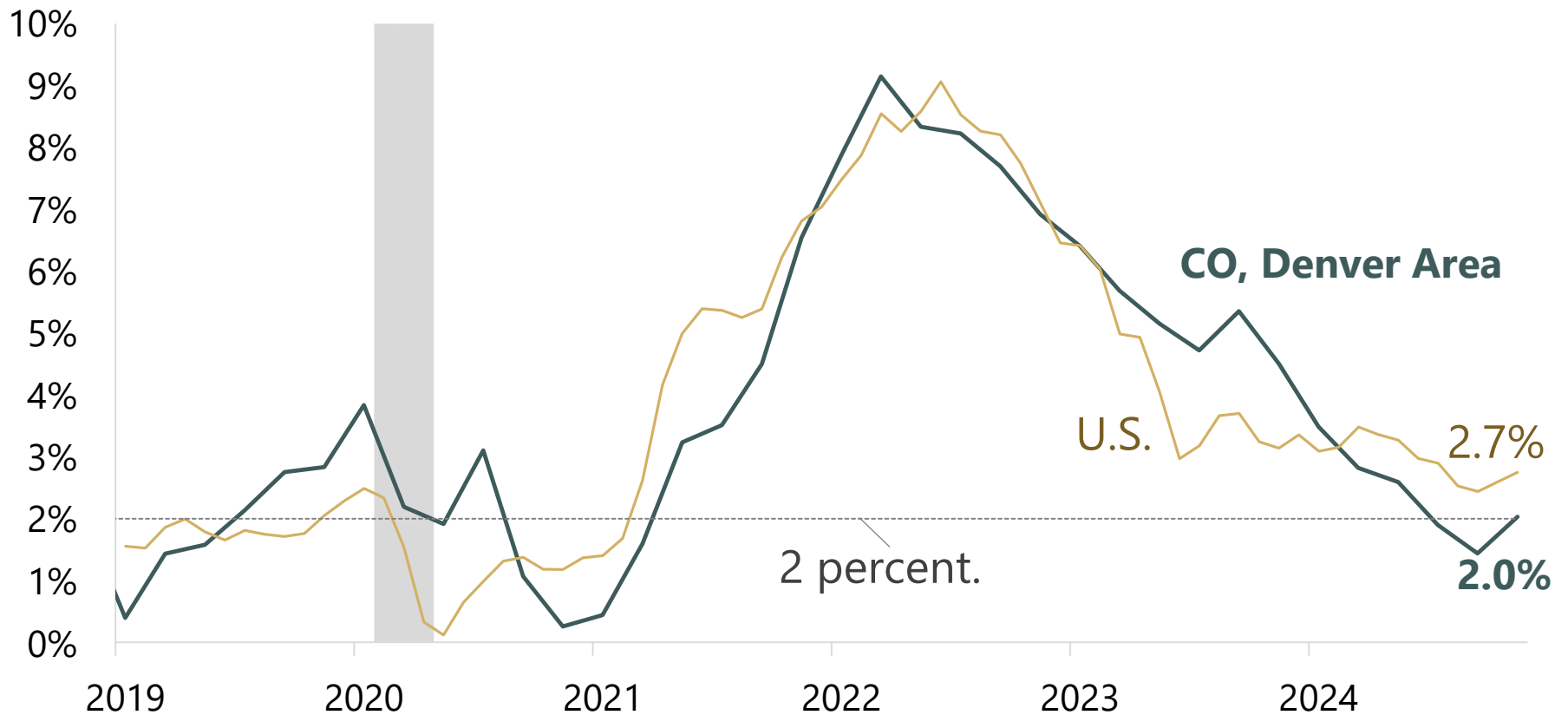
Real U.S. Gross Domestic Product
Trillions of Dollars, Adjusted for Inflation



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

Inflation trending downward despite uptick in November

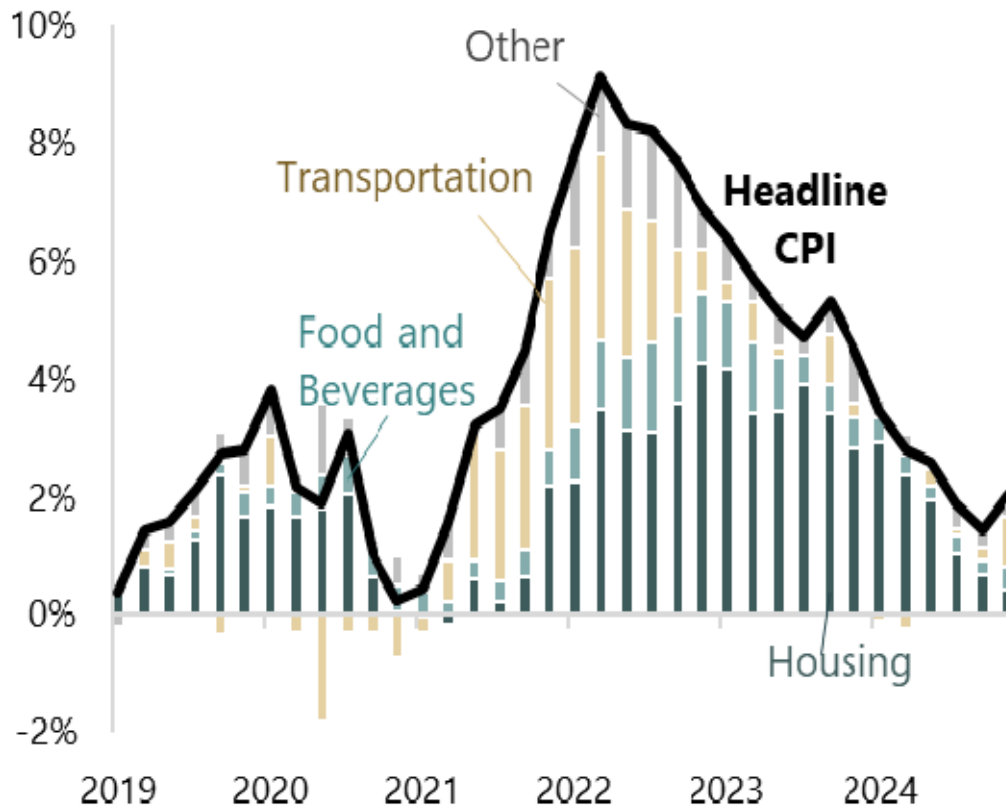
Headline CPI-U Inflation
Year-over-Year Change in Prices



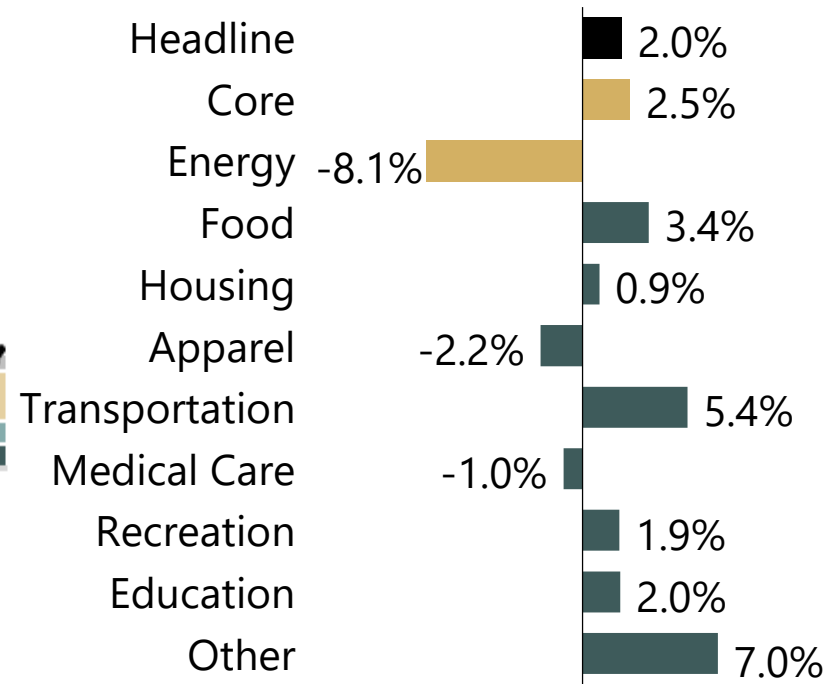
Source: U.S. Bureau of Labor Statistics. Colorado inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area. Data are through November 2024.

Housing price inflationary pressure wanes, transportation ticks up

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



Selected Components, November 2024

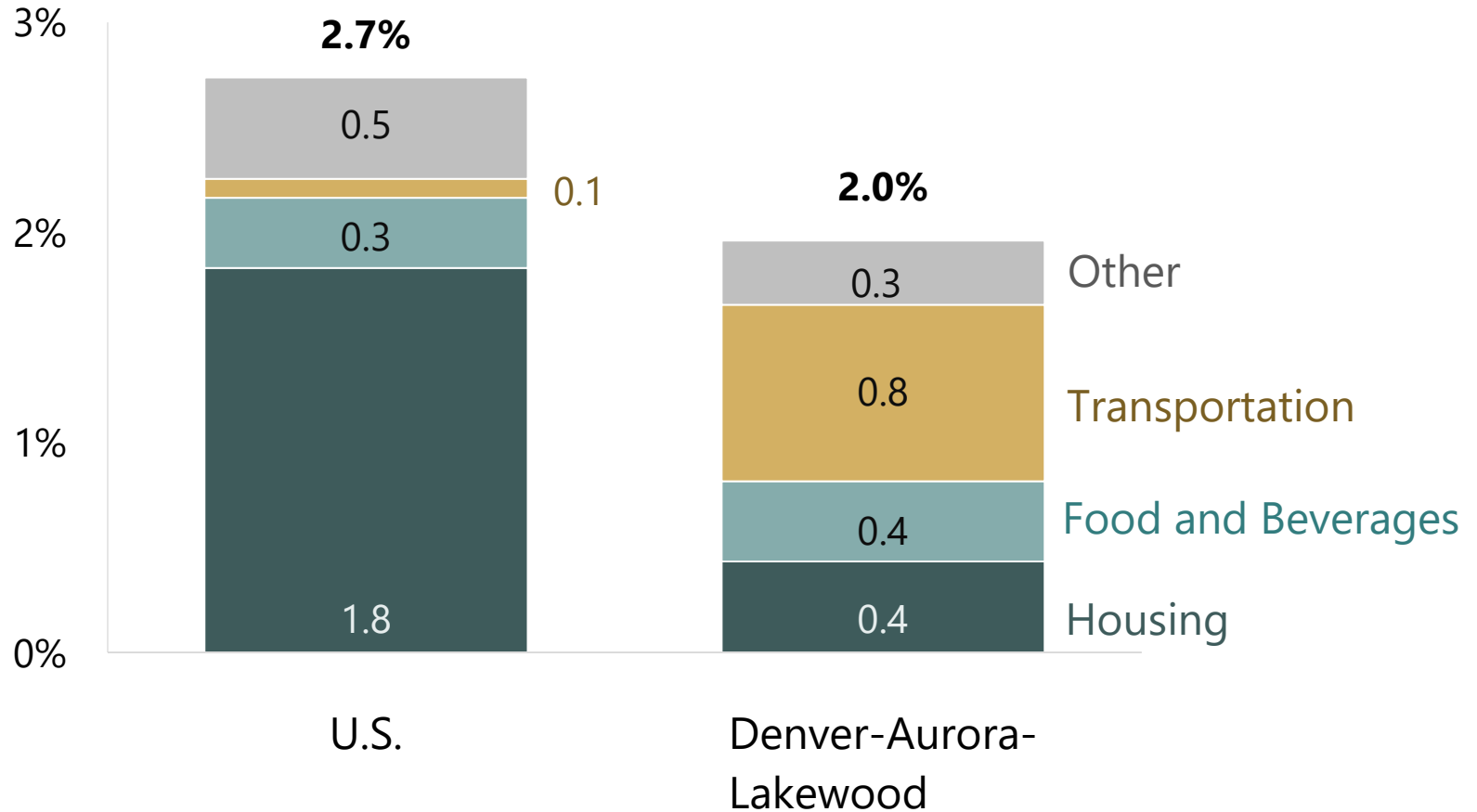


Source: U.S. Bureau of Labor Statistics and LCS calculations.

Housing leads difference in inflation contributions between Colorado and the U.S.

Contributions to Inflation

Percent / Percentage Point Contributions

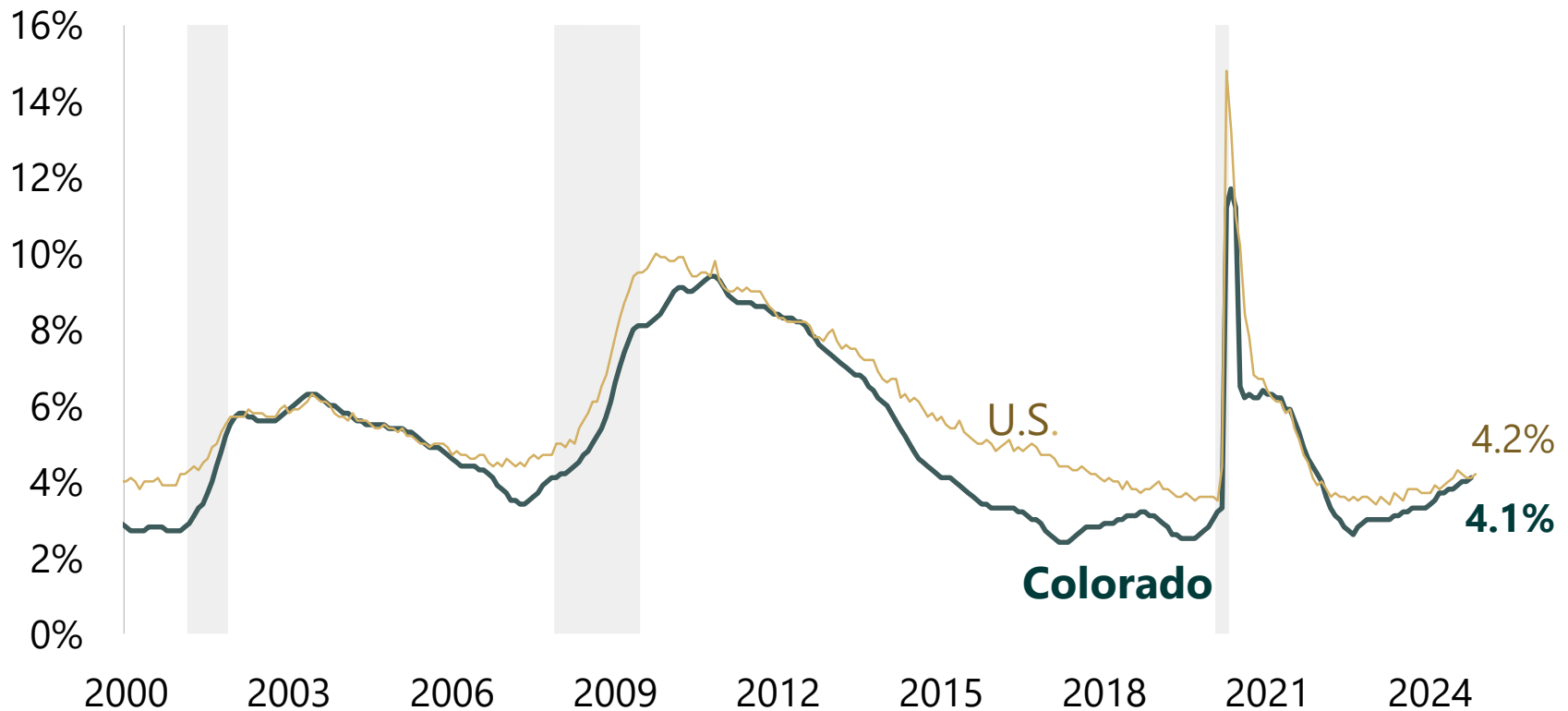


Source: U.S. Bureau of Labor Statistics. Colorado inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area. Data are through November 2024.

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 November 2024. Colorado data are through October 2024.

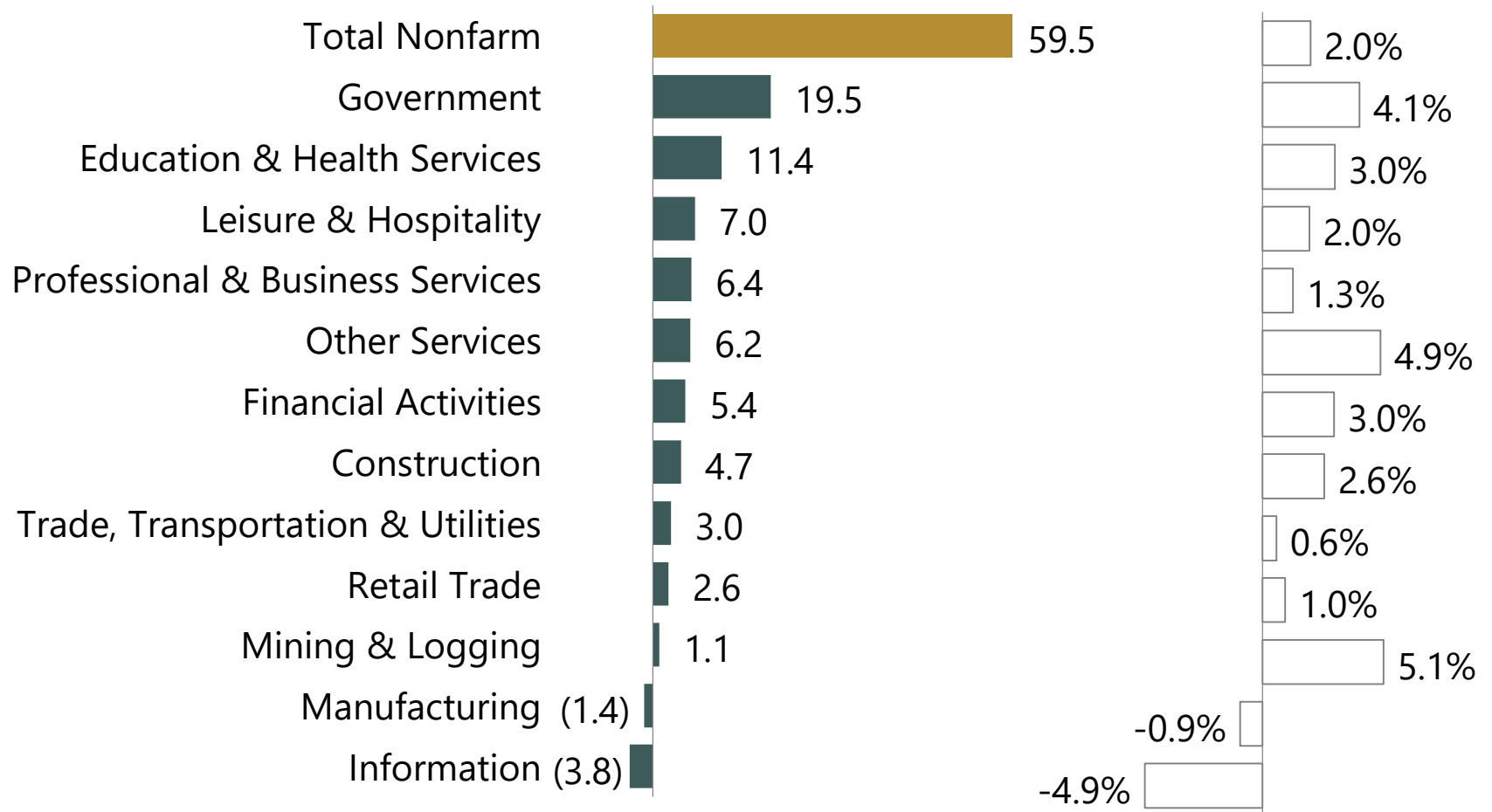
Job gains in line with historical levels, differ by supersector

Colorado Job Gains and Losses by Supersector

Year-over-Year Change, October 2024

Thousands of Jobs

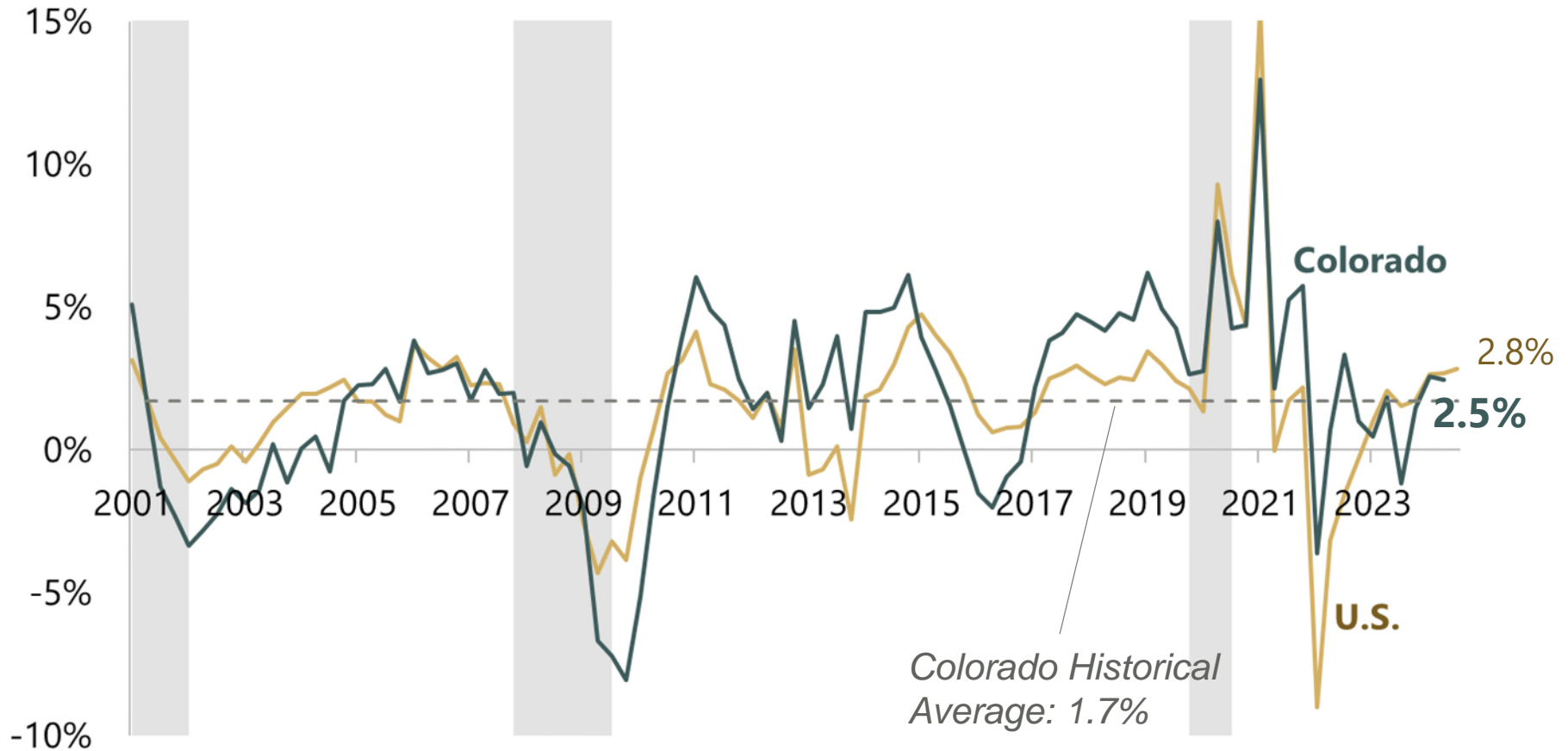
Percent Change



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

Real personal income growth is above the historical average

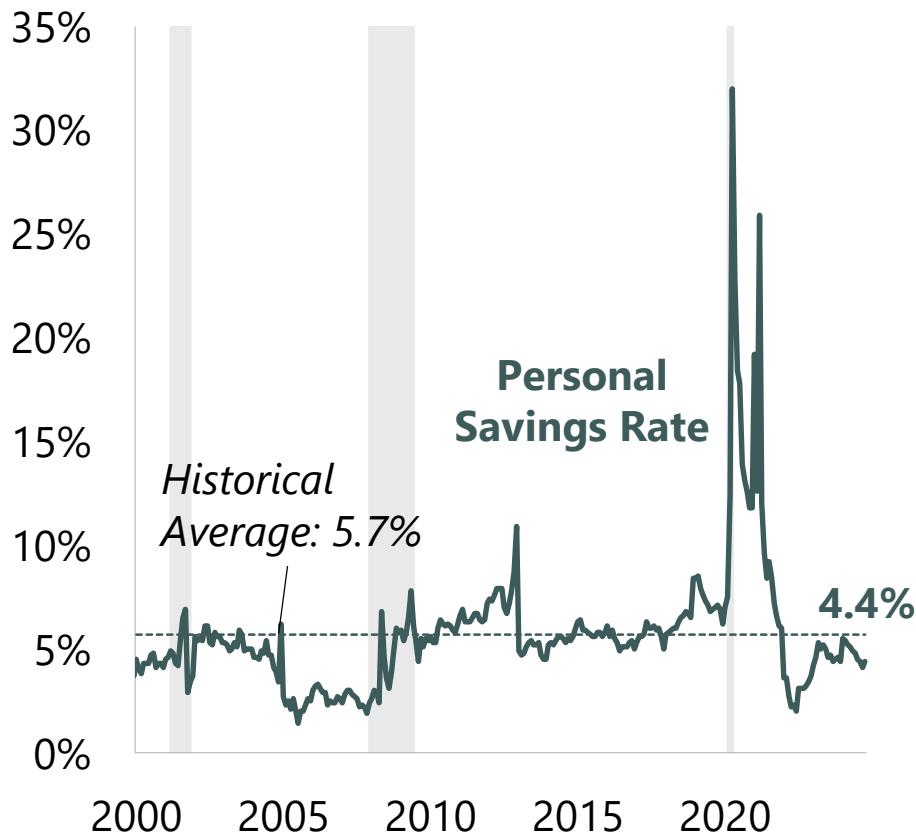
Real Per-Capita Personal Income Year-over-year Percent Change



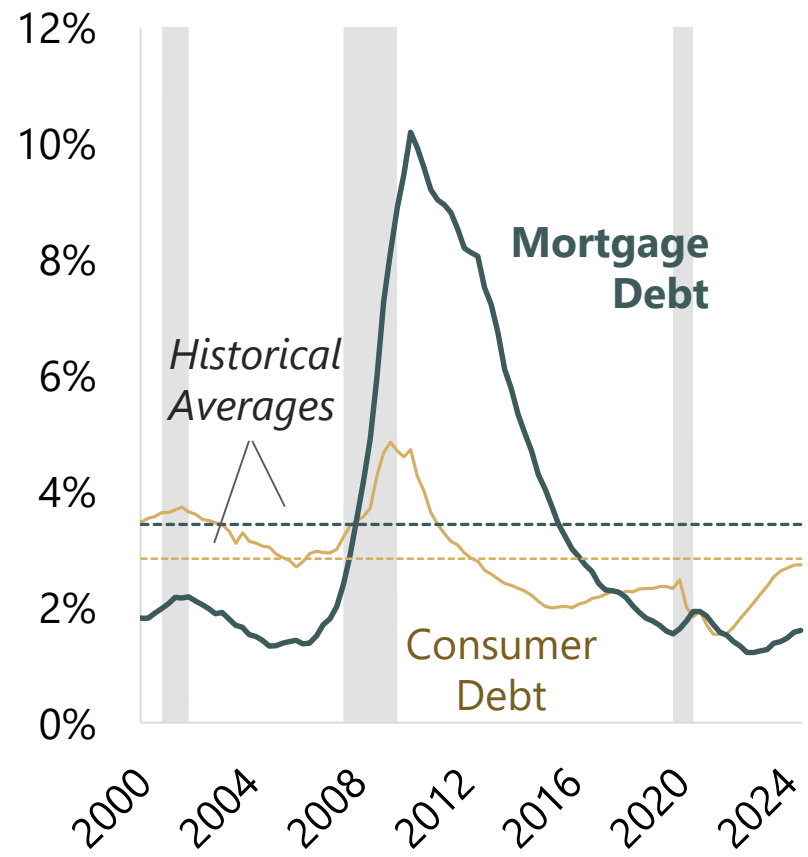
Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, and LCS calculations. Data are adjusted for inflation using the national PCE price index. Data for the U.S. are through Q3 2024. Data for Colorado are through Q2 2024.

Household savings below the historical average, delinquencies rising

Personal Savings Rate Percent



Delinquency Rates Percent of Loans

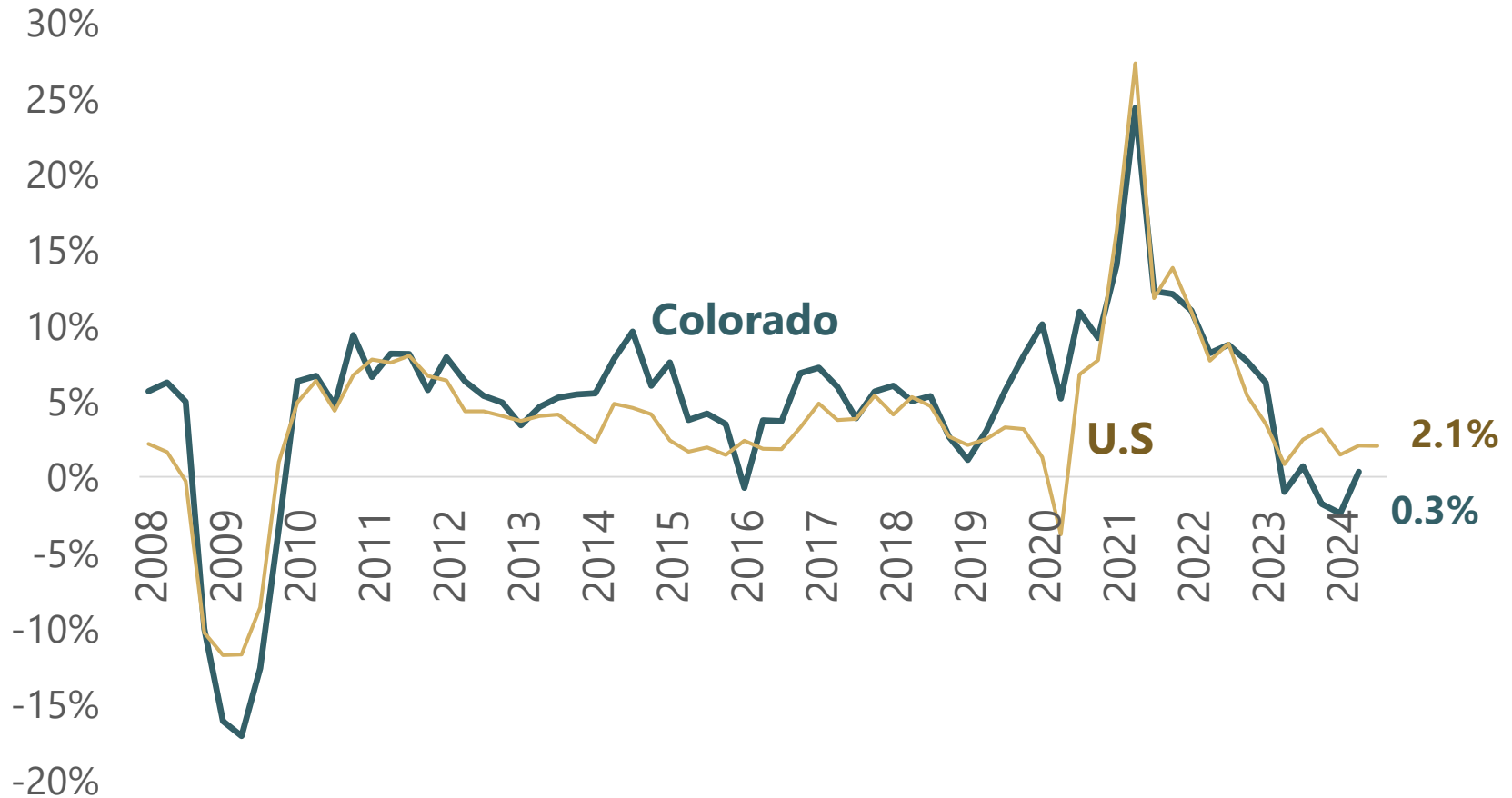


Source: U.S. Bureau of Economic Analysis and Federal Reserve Board of Governors.

*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 through September 2024 (left) and 2024Q3 (right).

Colorado consumer spending trails the U.S.

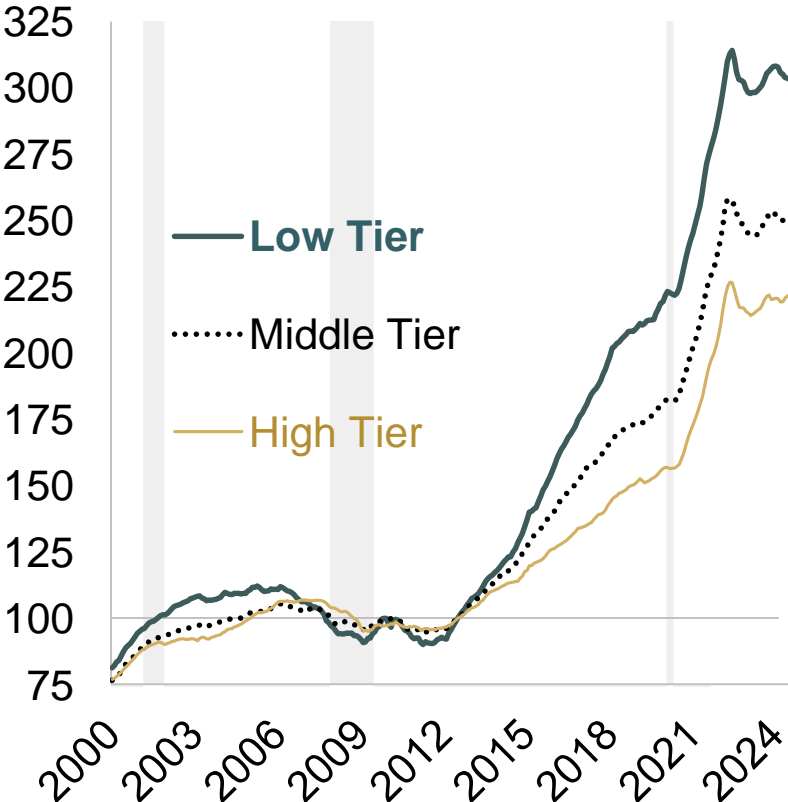
Retail Trade Sector Sales Year-over-year Percent Change



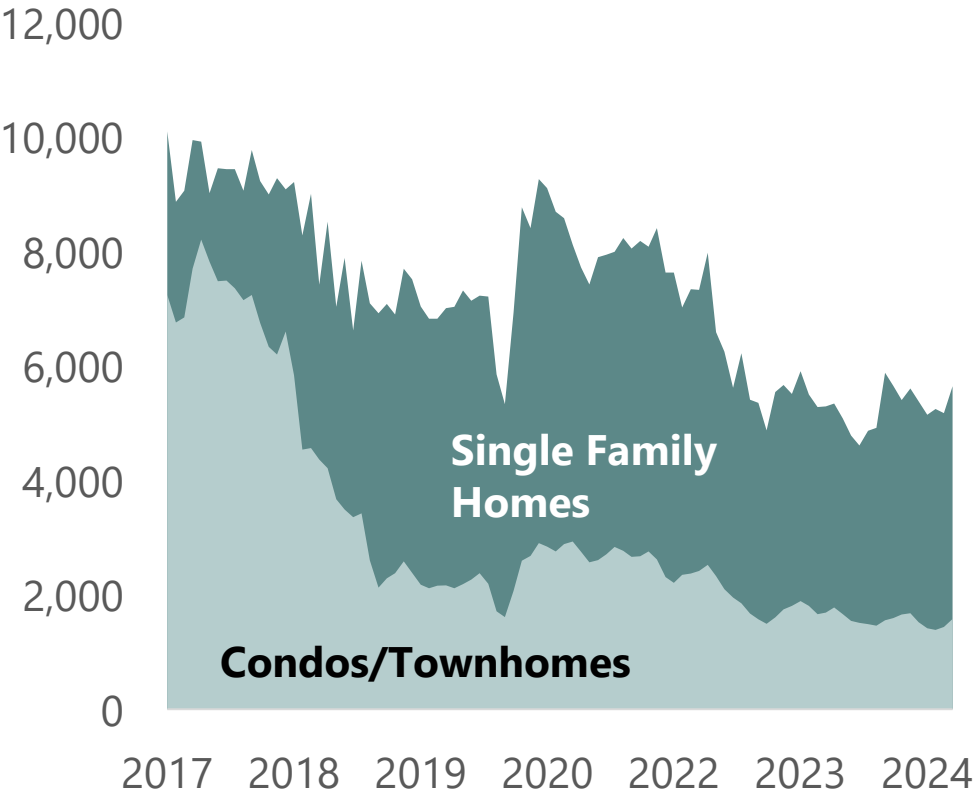
Source: U.S. data from U.S. Census Bureau, seasonally adjusted through Q3 2024. Colorado data from Colorado Department of Revenue through Q2 2024.

Denver home prices easing in 2024, down 3 percent, compared to May 2022; home sales activity remains sluggish

Denver Home Price Indices
Index 100=July 2012



Colorado monthly home sales
In number of homes

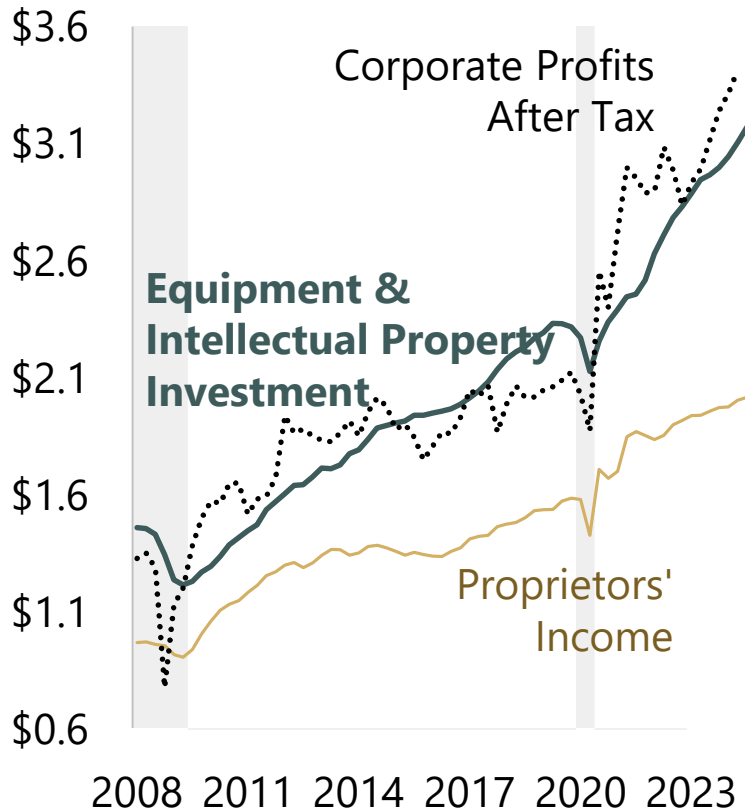


Source: S&P Dow Jones Indices LLC. Data are seasonally adjusted and are through August 2024 (left). Colorado Association of Realtors. Data through November 2024 (right).

Corporate Profits strong, but manufacturing activity still sluggish

Business Investment, Income, and Profits

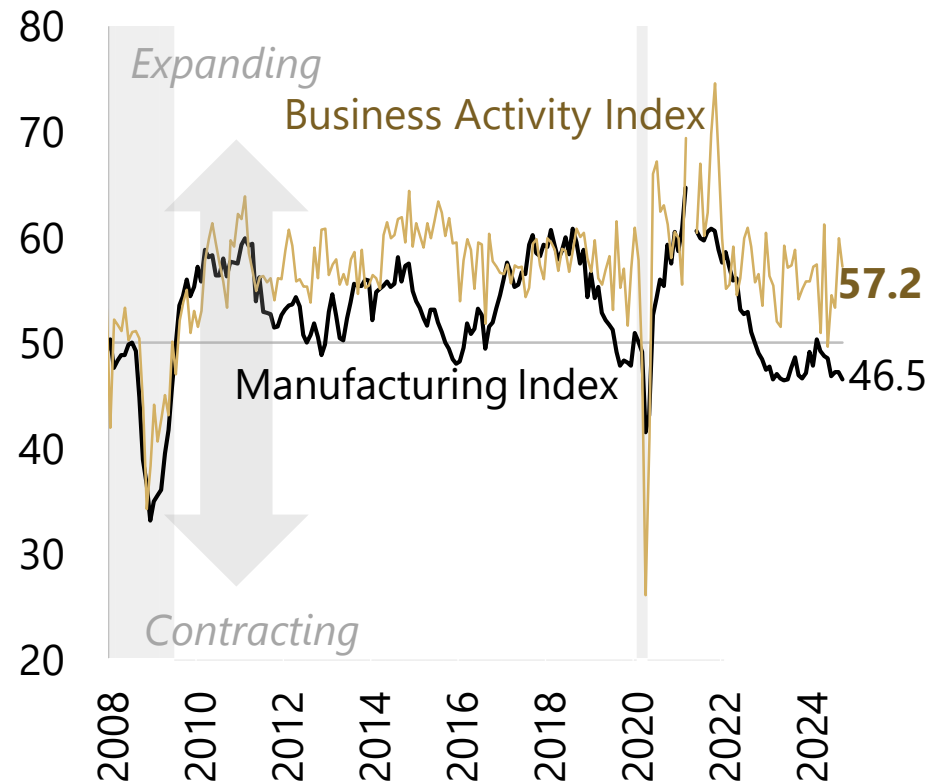
Trillions of Dollars



Source: U.S. Bureau of Economic Analysis. Data are not adjusted for inflation. Data are through 2024Q3.

ISM Business and Manufacturing Activity

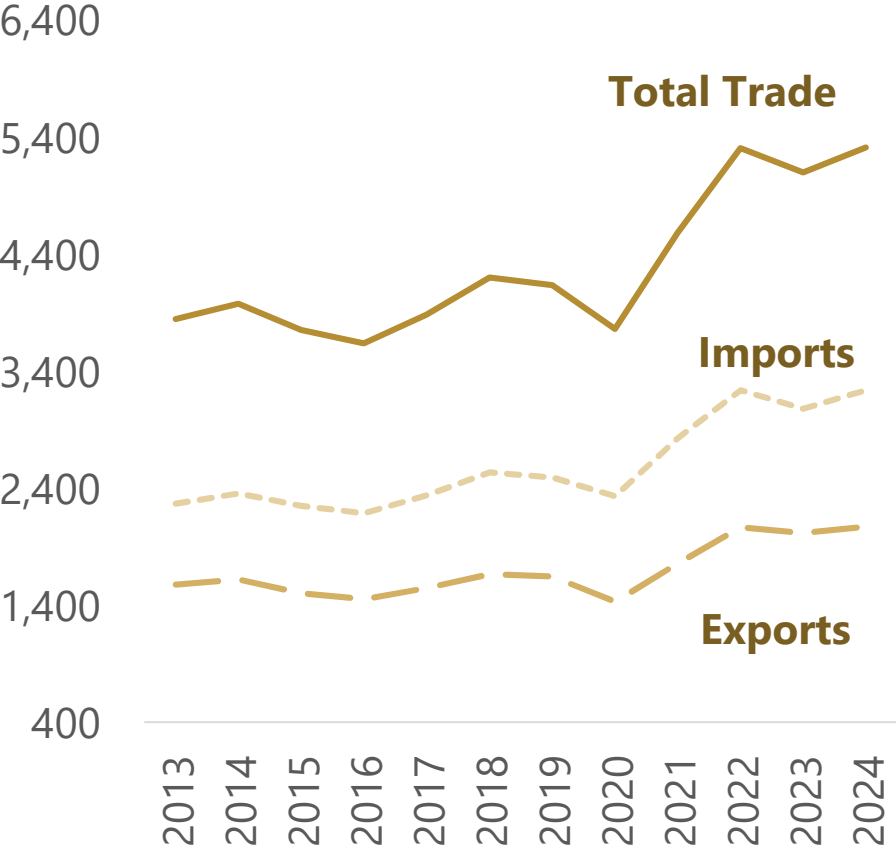
Diffusion Index



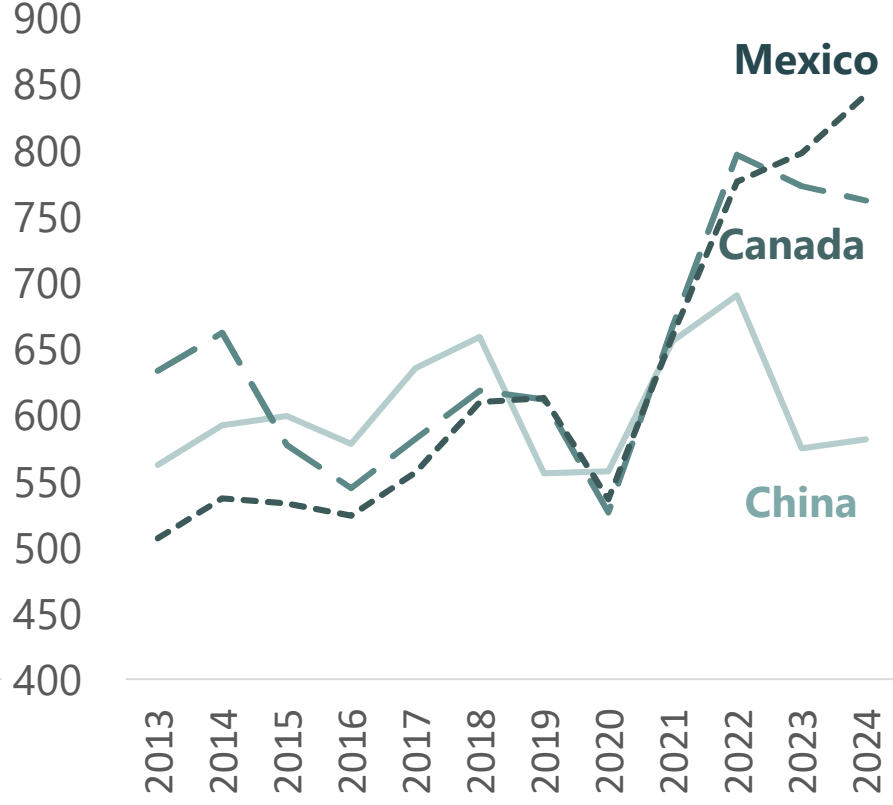
Source: Institute for Supply Management. The Tenth District composite index is adjusted to the ISM scale. Data through October 2024.

Trade up significantly since pandemic, attributable to increased trade with Canada and Mexico

U.S. Total Trade
U.S. Dollar Value



Total Trade Value by Country
U.S. Dollar Value



Source: WiserTrade data through Q3 2024. Q4 2024 numbers are estimated from YTD annual growth rate.

The forecast anticipates a continued, slowing expansion, with downside risks more disruptive

- **Downside Risks:**

- Persistently high prices hurt consumption
- Deteriorating labor market conditions
- Poor global economy impacts U.S. growth
- Significant federal policy changes

- **Upside Risks:**

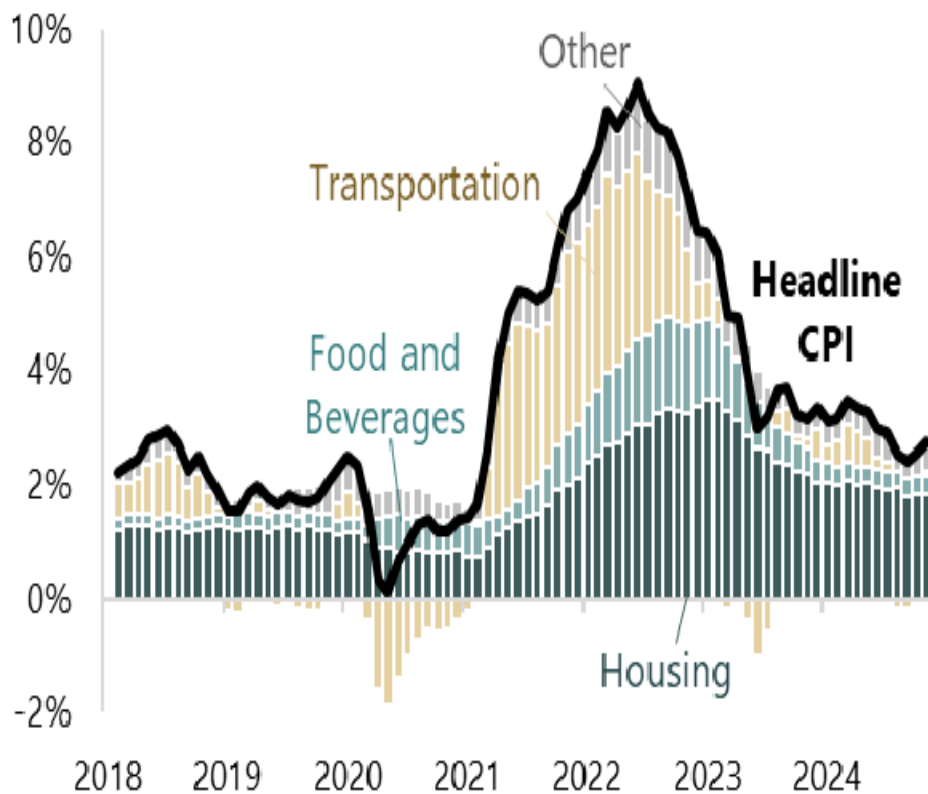
- Significant federal policy changes
- More aggressive monetary policy easing
- Faster labor market response to monetary policy easing
- Ratio of imports to exports decreases

Supplemental Slides

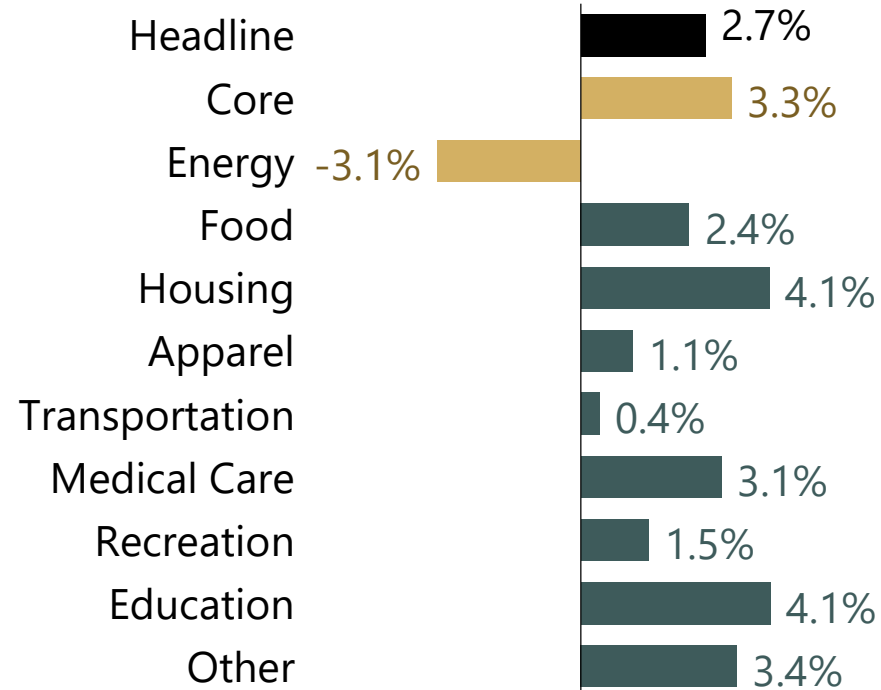


Housing price inflationary pressure wanes, transportation ticks up

Contributions to U.S. Consumer Price Index (CPI-U) Inflation
Year-over-Year Change in Prices



Selected Components, November 2024



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

Construction sees employment growth after a year of declines

Construction Monthly Gains and Losses in Employment Year-over-year Percent Change



Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, and LCS calculations. Data are adjusted for inflation using the national PCE price index. Data for the U.S. are through Q3 2024. Data for Colorado are through Q2 2024.

General Fund Budget Outlook



General Fund Revenue

- revised up on various factors

TABOR Outlook

- small surpluses expected

Cash Fund Revenue

- lots of movement, revised down on net

Ballot Measures

Budget Bottom Line

- Forecast shows more available space, building cumulatively across all three fiscal years

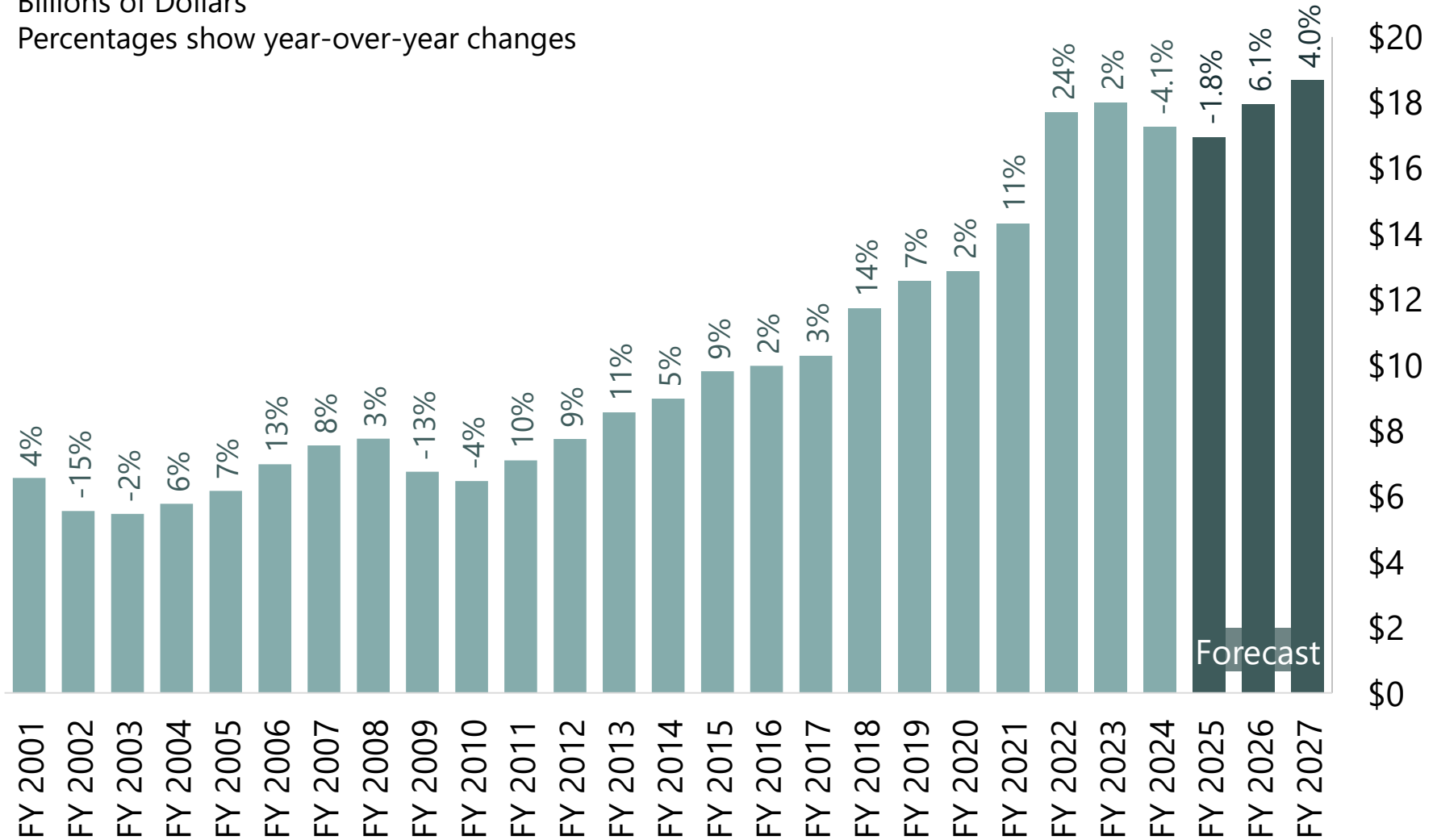


September 2024 | General Fund Forecast

Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes



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

Forecast revised up, with contributions from income, sales, and TABOR-exempt taxes

December 2024 | General Fund Forecast

Gross General Fund Revenue

Billions of Dollars

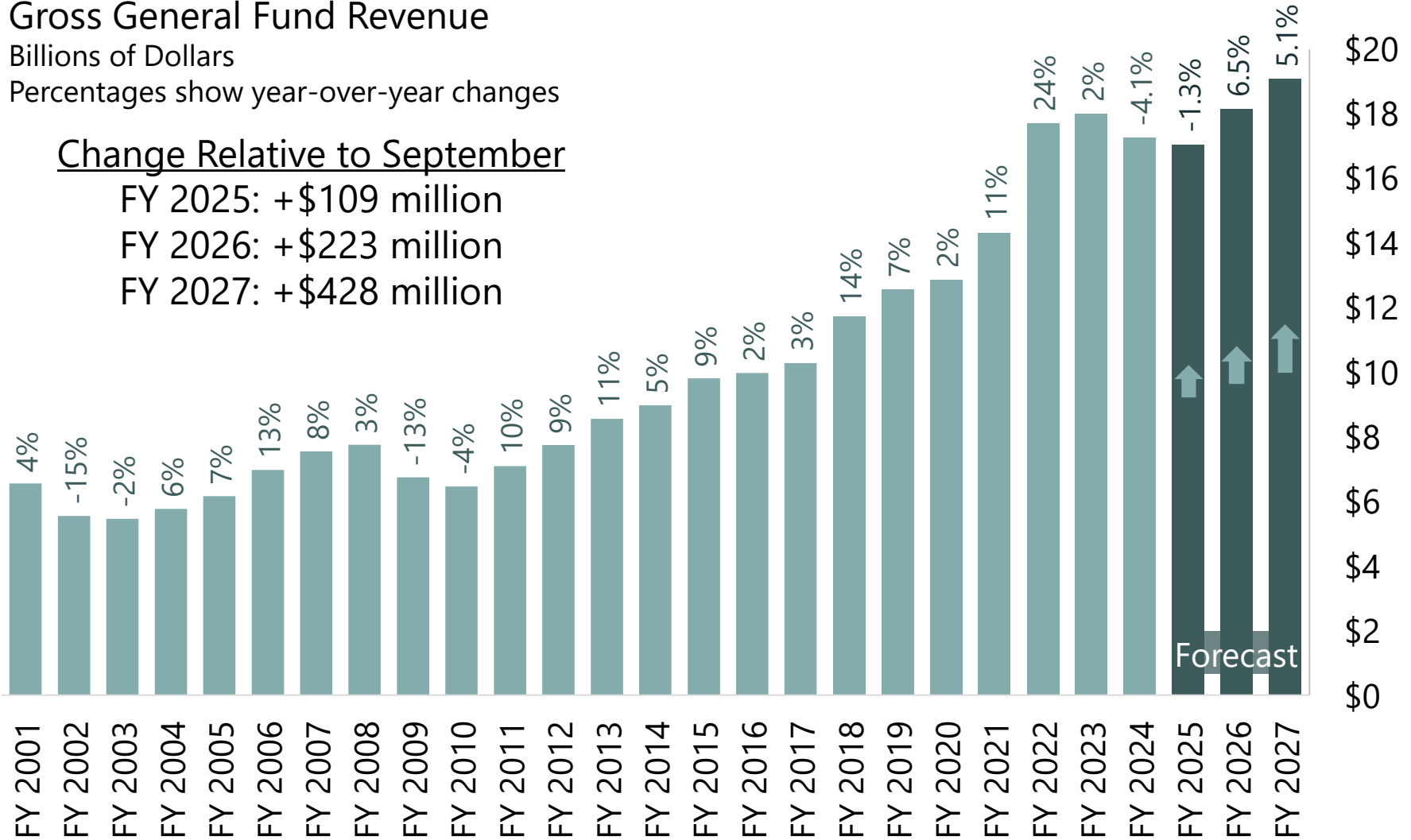
Percentages show year-over-year changes

Change Relative to September

FY 2025: +\$109 million

FY 2026: +\$223 million

FY 2027: +\$428 million

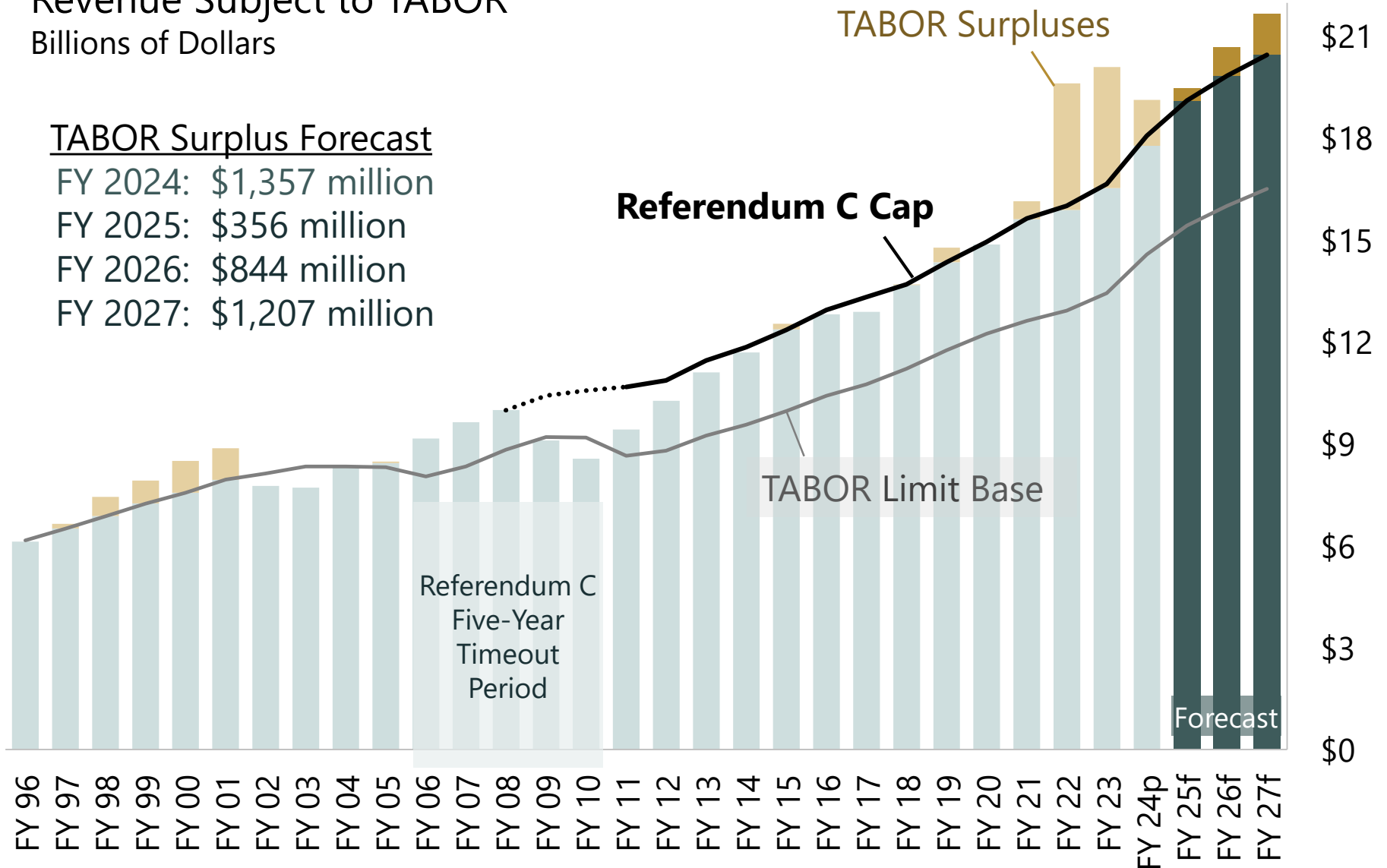


TABOR Surpluses are Expected to Decline

Revenue Subject to TABOR
Billions of Dollars

TABOR Surplus Forecast

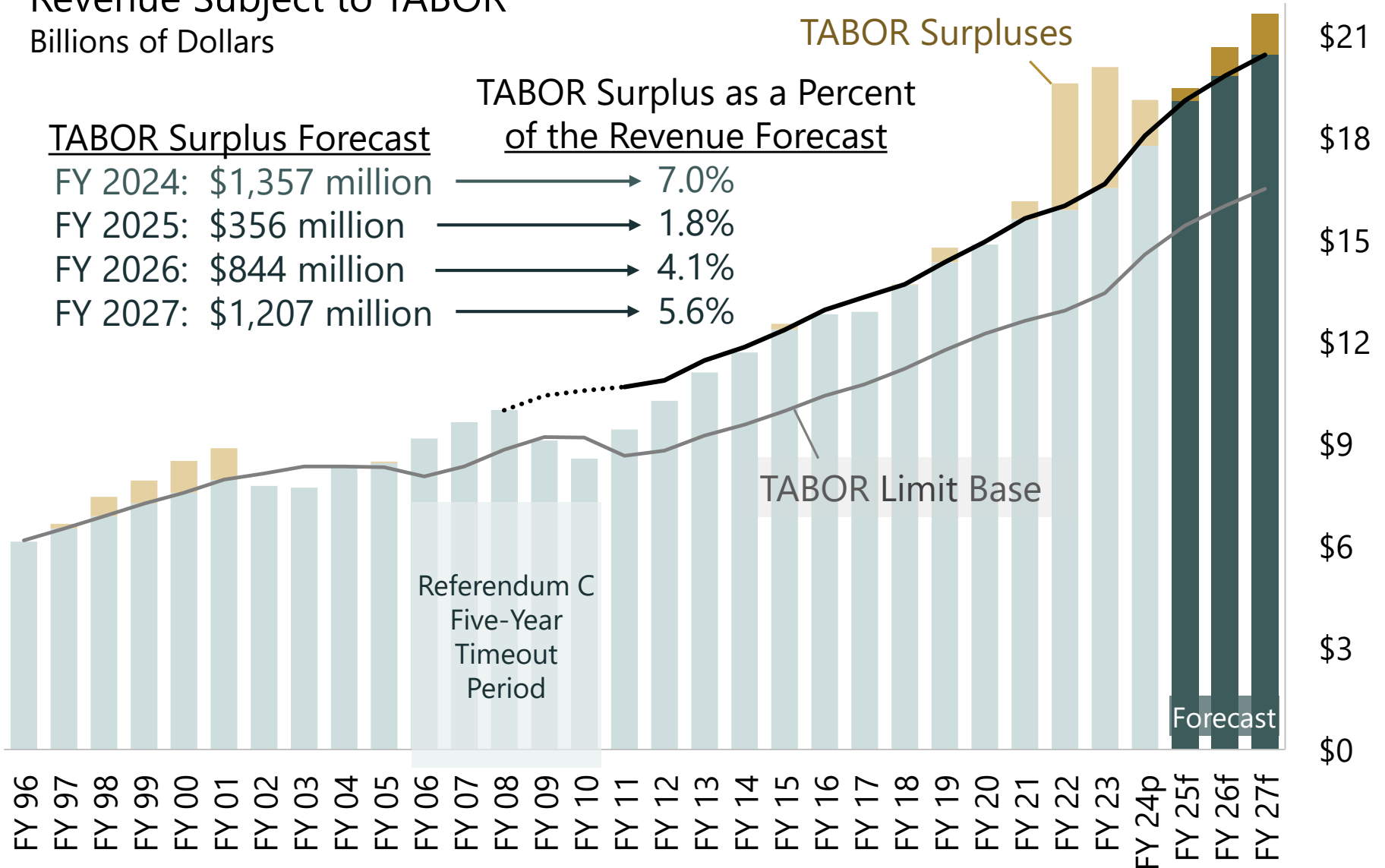
FY 2024: \$1,357 million
 FY 2025: \$356 million
 FY 2026: \$844 million
 FY 2027: \$1,207 million



TABOR Surpluses are Expected to Decline

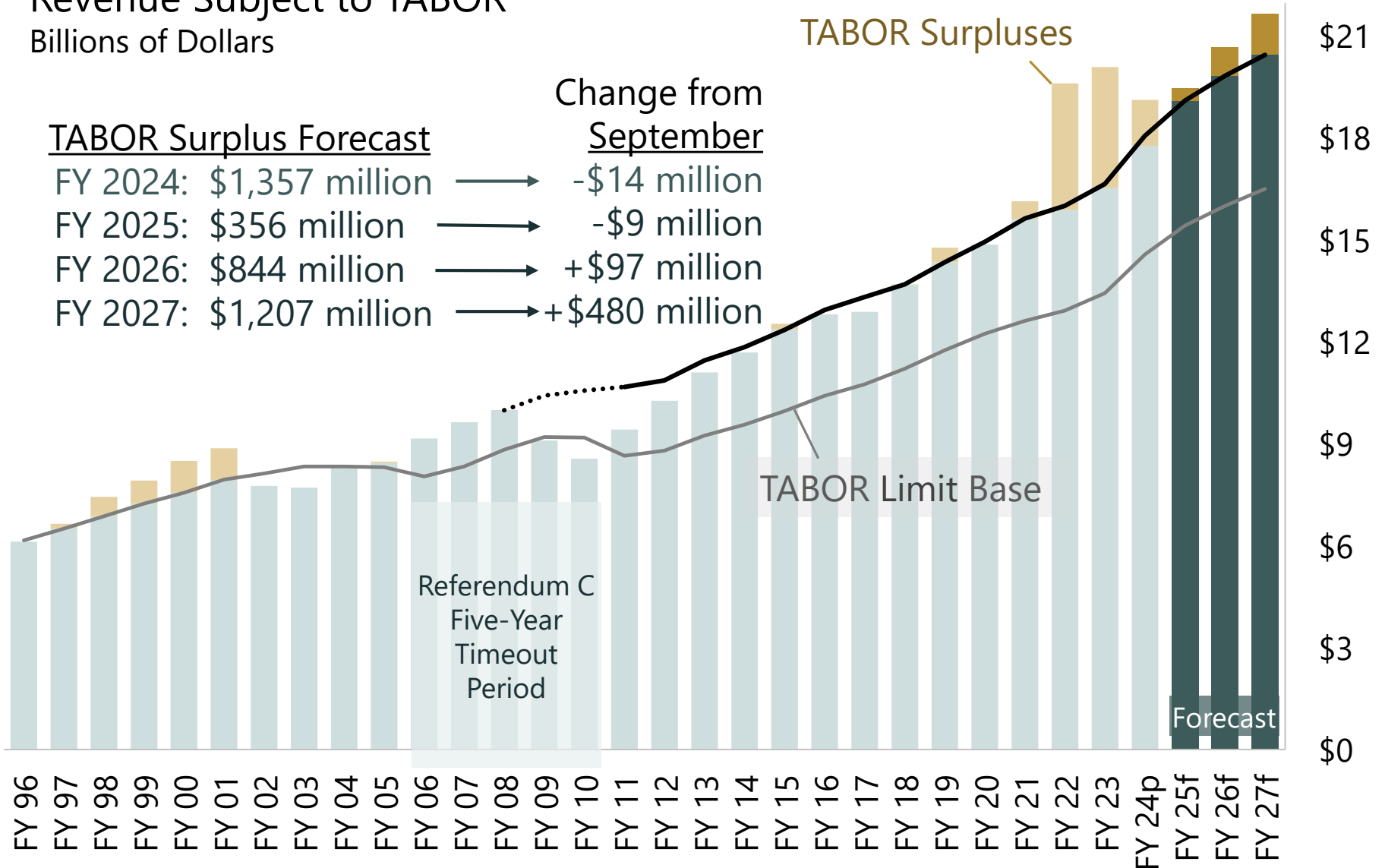
Revenue Subject to TABOR

Billions of Dollars



TABOR Surpluses are Expected to Decline

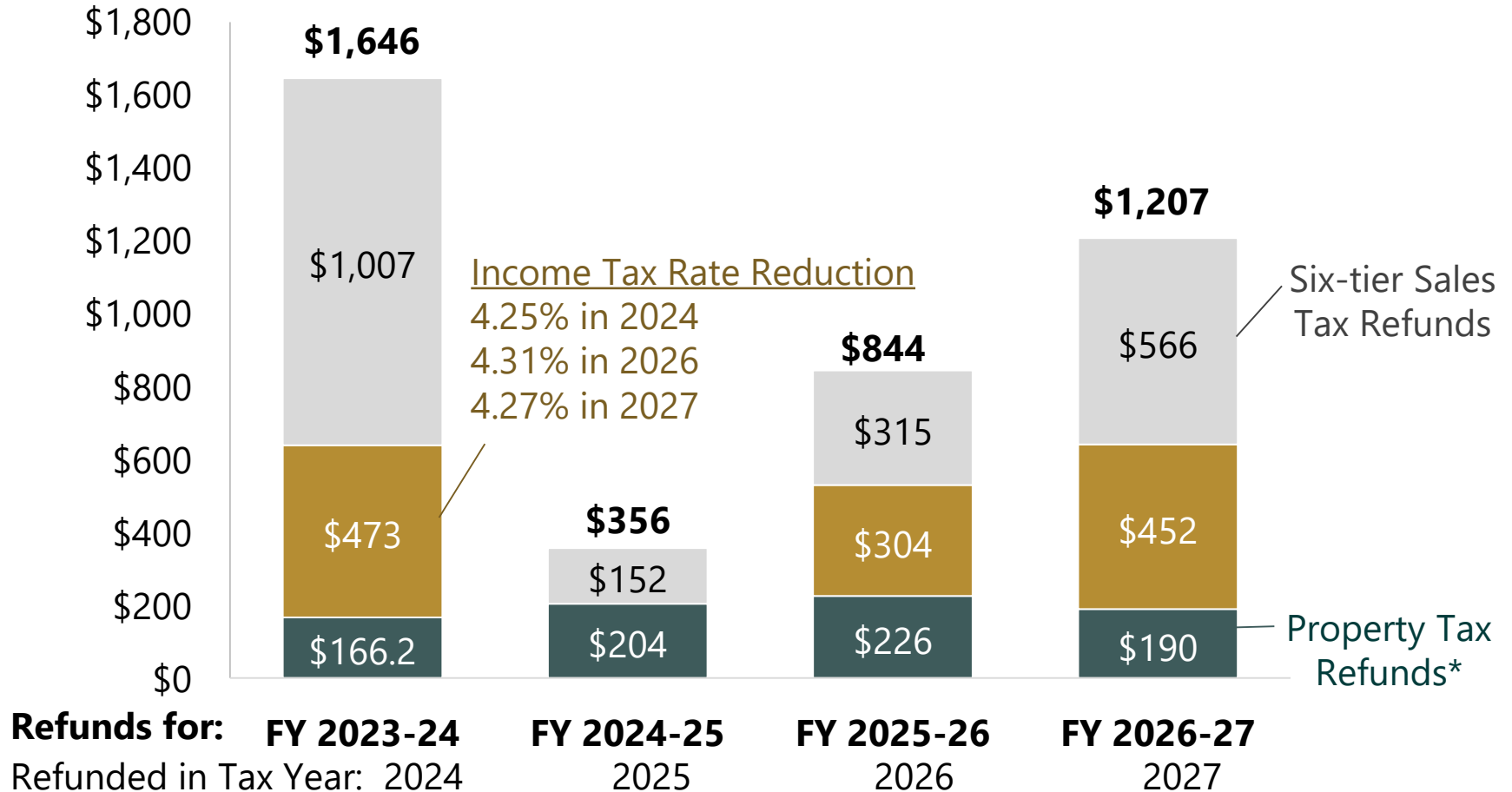
Revenue Subject to TABOR
Billions of Dollars



TABOR Refunds expected to fall in FY 2025

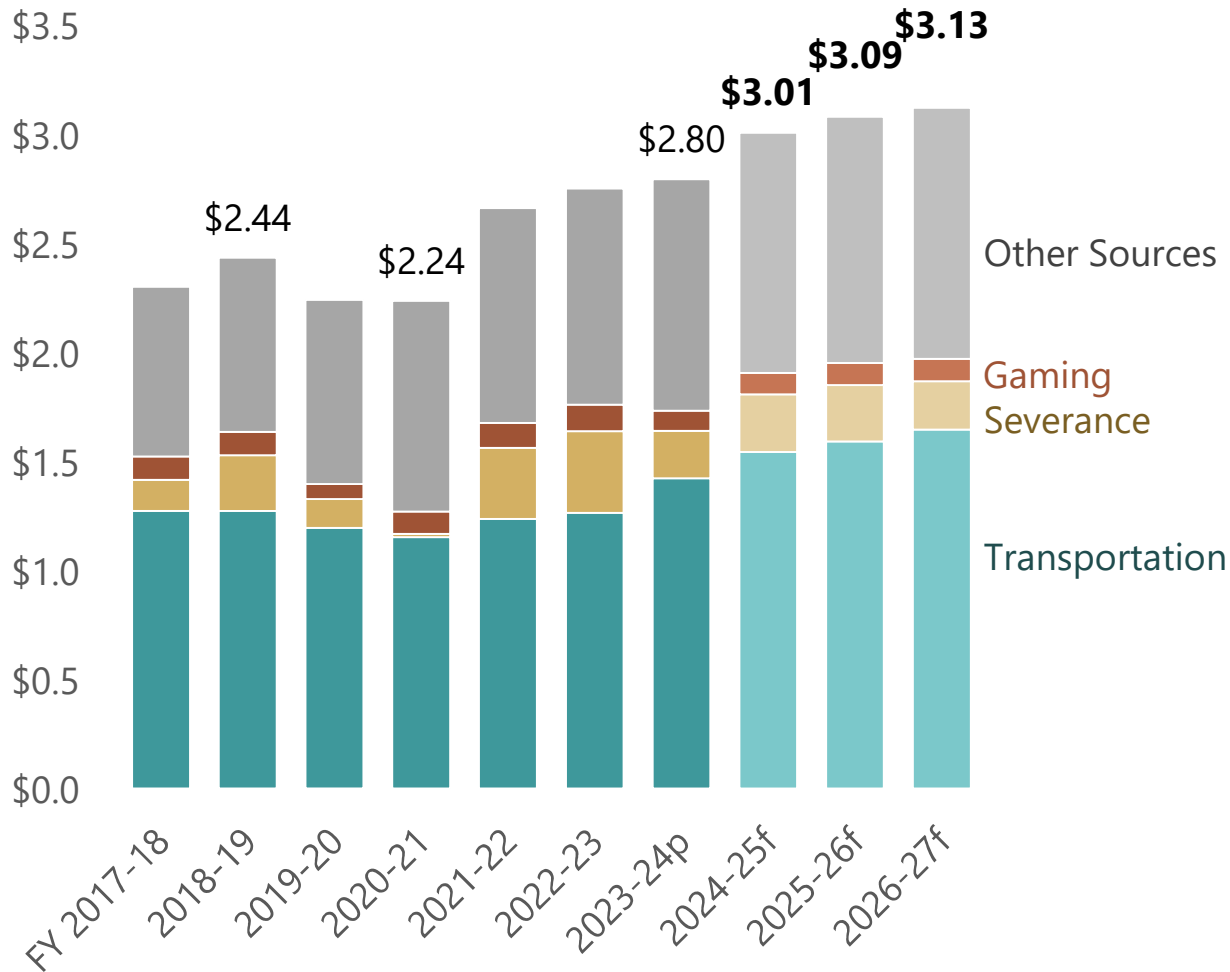
TABOR Refund Mechanisms

Millions of Dollars



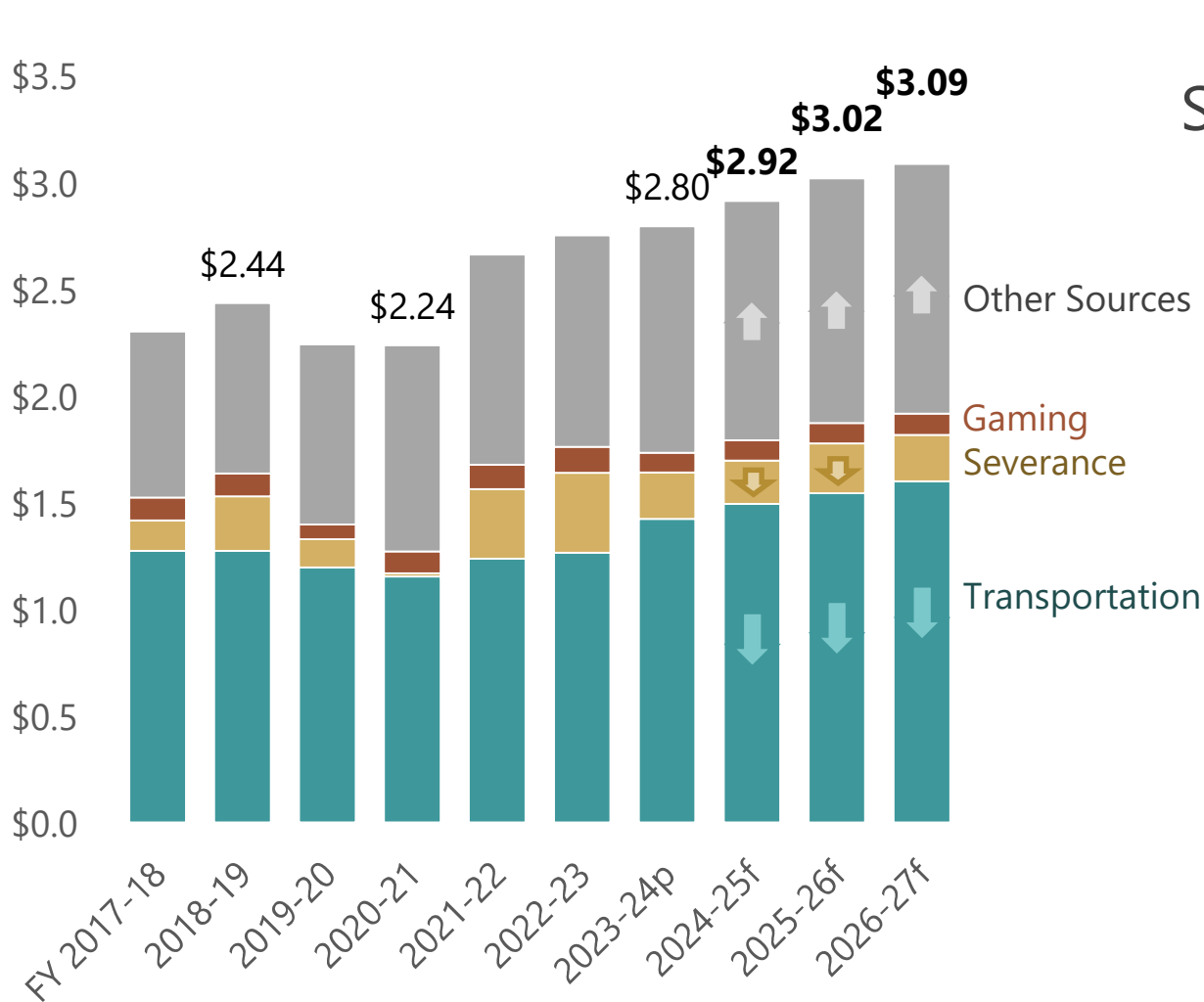
* Property tax refunds include the homestead exemption for seniors and veterans, and property tax reimbursements to local governments under SB 22-238, SB 23B-001, and SB 24-111.

September 2024 | Cash Funds Subject to TABOR



Source: Office of the State Controller and LCS September 2024 Forecast.

December 2024 | Cash Funds Subject to TABOR



Change since the September forecast:

FY 2024-25: -\$95 million
 FY 2025-26: -\$62 million
 FY 2026-27: -\$35 million

Net impacts of:

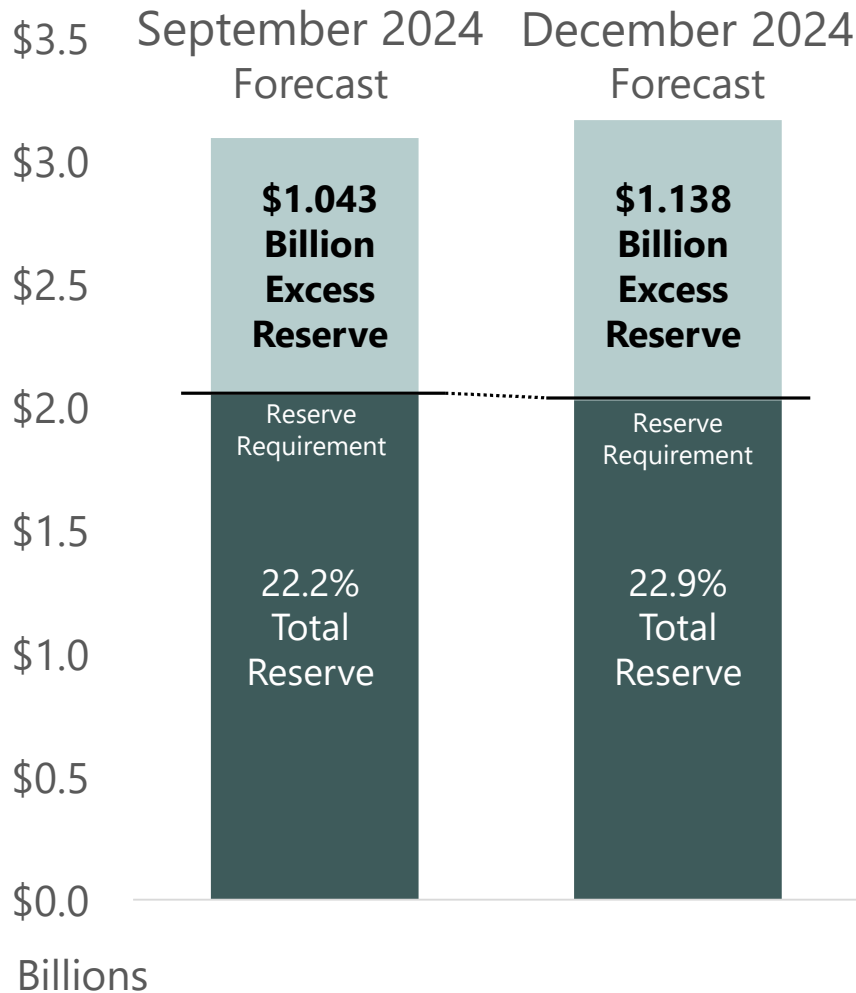
- downgrade to **severance**, mostly FY 2024-25
- downgrade to **transportation**, all years
- upgrade to **other cash funds**, all years
- incorporation of **HB 24-1434** in sales tax forecast

Source: Office of the State Controller and LCS December 2024 Forecast.

Forecast adjustments for ballot measures:

- Amendment G (homestead exemption for vets)
- Proposition JJ (gaming revenue retention)
- Proposition KK (firearms tax)
- Proposition 130 (law enforcement funding)

Last Year | FY 2023-24 General Fund Reserve

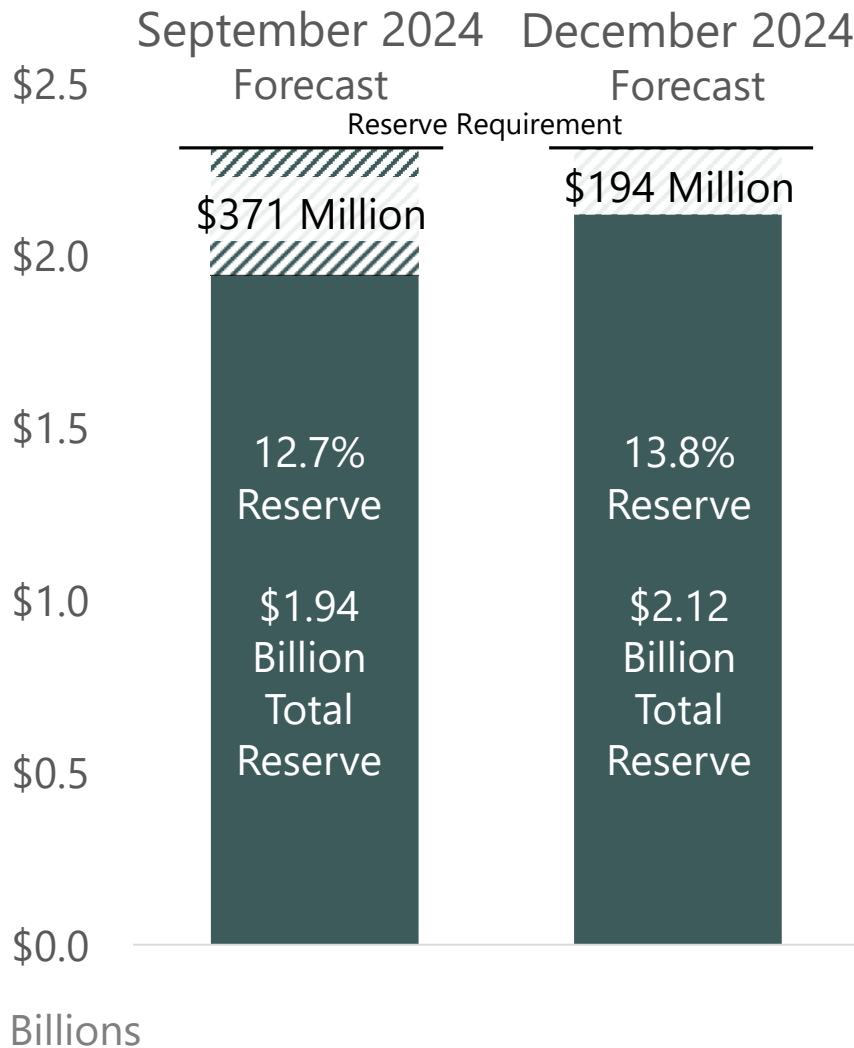


Change since the September forecast:

- + \$95.1 M in additional budget space relative to reserve requirement
- + **\$72.0 M** higher ending balance:
 - -\$1.7 M from lower transfers in, mostly SB 21-251 (FAMLI)
 - +\$14.3 M from lower TABOR refund obligation (audit adjustment)
 - +\$41.3 M from lower transfers out (HB 24-1231)
 - +\$18.2 M from accounting adjustments, mostly reversions

Source: Legislative Council Staff forecasts based on current law.

Current Year | FY 2024-25 General Fund Reserve



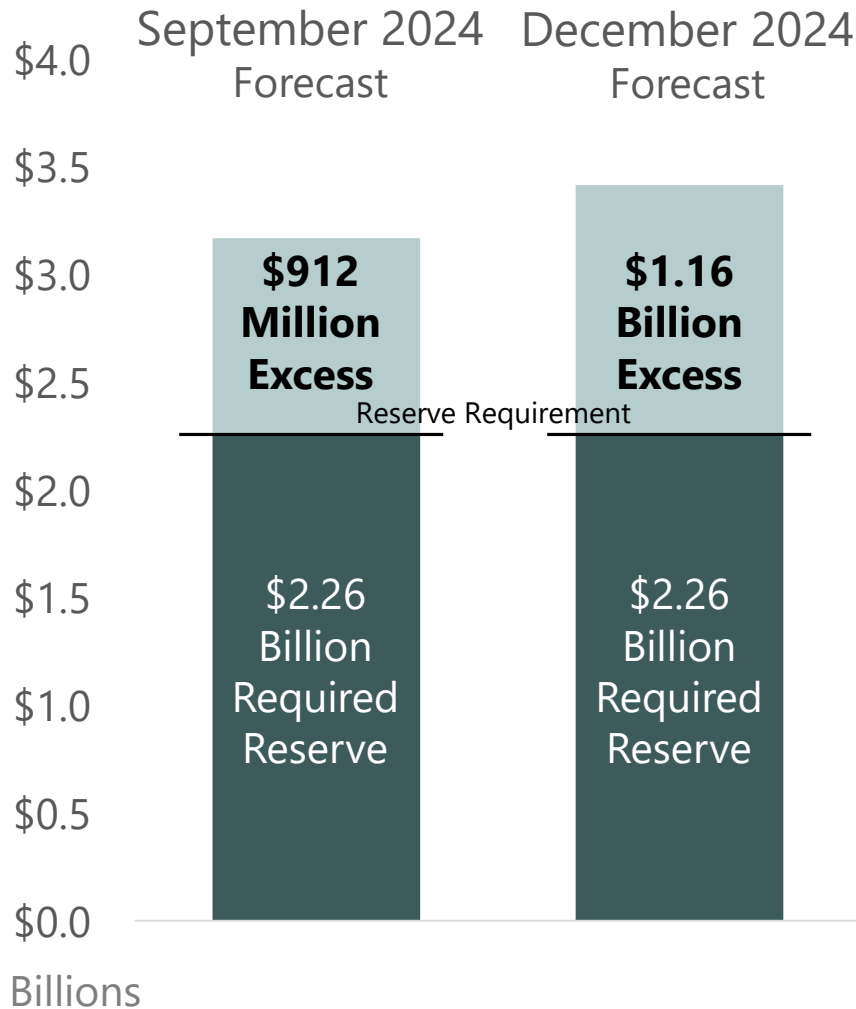
Changes since the September forecast:

- **+\$177 M in additional budget space:**
 - +\$72 M from **beginning balance**
 - +\$13 M from **transfers in** (HB 24-1426)
 - +\$109 M from **GF revenue** forecast
 - +\$9 M from lower **TABOR** obligation
 - -\$21 M from higher **transfers out**, mostly of exempt revenue
 - -\$4 M from higher **rebates and expenditures**

Source: Legislative Council Staff forecasts based on current law.

Budget Year | FY 2025-26 **Scenario A**

Changes since the
September forecast:

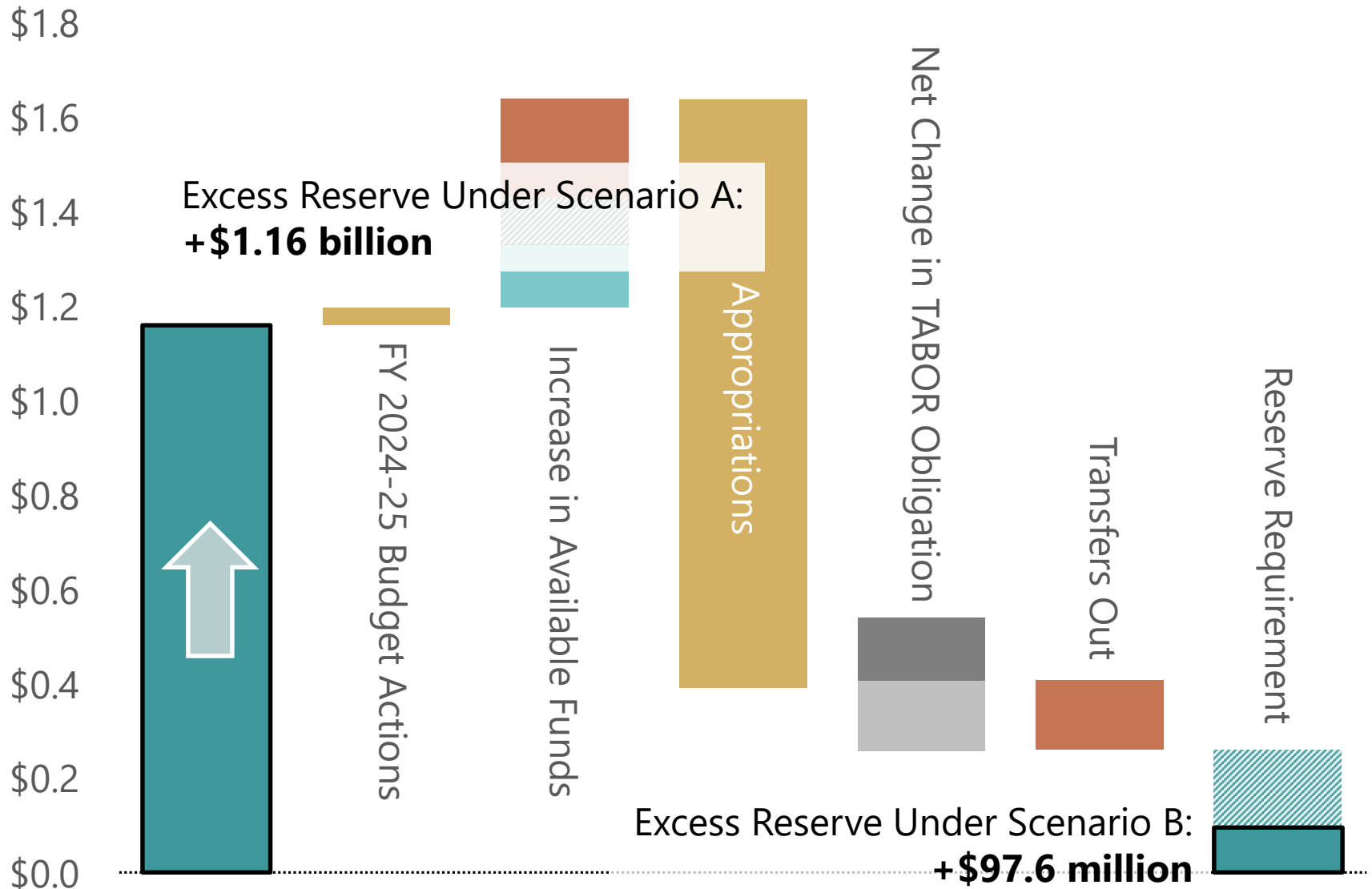


+\$249 M in additional budget space:

- +\$177 M from **beginning balance**
- +\$223 M from **GF revenue** forecast
- -\$97 M from higher **TABOR** obligation
- -\$45 M from higher **transfers out**, mostly of exempt revenue
- Smaller changes to transfers in, rebates and expenditures

Source: Legislative Council Staff forecasts based on current law.

Budget Year | FY 2025-26 **Scenario B**



Source: Legislative Council Staff forecasts with Governor's November 2024 Budget Request for FY 2025-26. See JBC Staff November 12 General Fund Overview update document for context.

Forecast Takeaways

December forecast shows more budget space than estimated in September, due to reduced cash fund revenue forecast and changes to accounting of transfer amounts

- Still facing a current year deficit relative to requirement
- Governor's request now estimated to be in balance for FY 2025-26

Budget still constrained by TABOR environment, caseload and ARPA rolloff pressures

Revenue could fall below TABOR limit, even without an economic downturn

Questions?

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K-12 Enrollment Forecast



Current Year K-12 Enrollment

Full-time equivalent (FTE) students counts

Region	Actual 2024-25	Percent Change
Colorado Springs	125,232	1.6%
Eastern Plains	24,452	-3.3%
Metro Denver	473,132	0.5%
Mountain	23,438	-2.2%
Northern	91,774	-0.8%
Pueblo	30,644	-2.2%
San Luis Valley	6,765	-1.8%
Southwest Mountain	11,983	-8.0%
Western	48,523	-1.0%
Statewide Total	835,942	0.01%

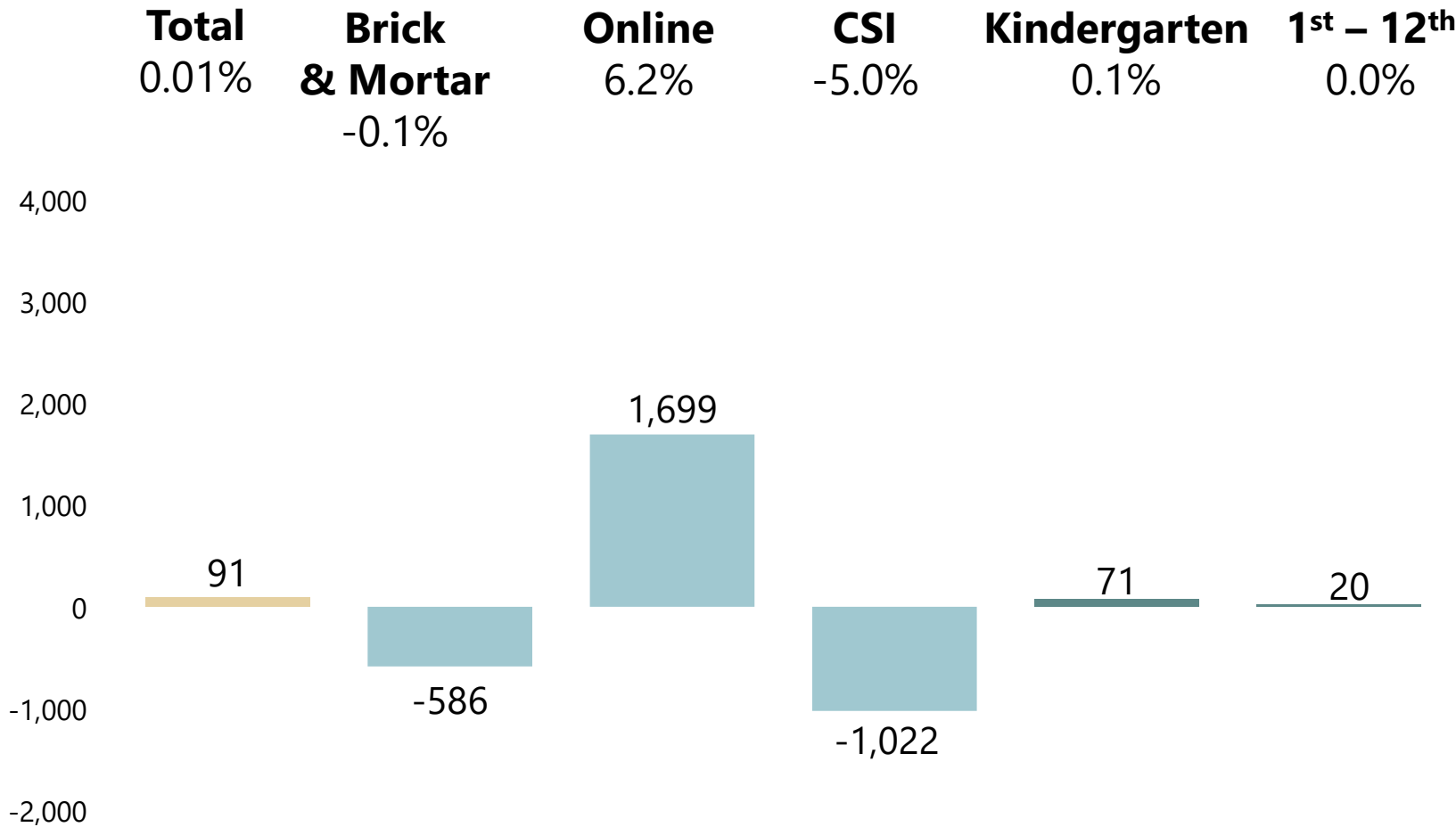
Change in 2024-25 Enrollment:
+91 FTE

That is **4,816 FTE (0.6%)** more than was forecast last year.

Source: Colorado Department of Education October Count

Year-over-Year Change in Enrollment

2024-25 compared to 2023-24.



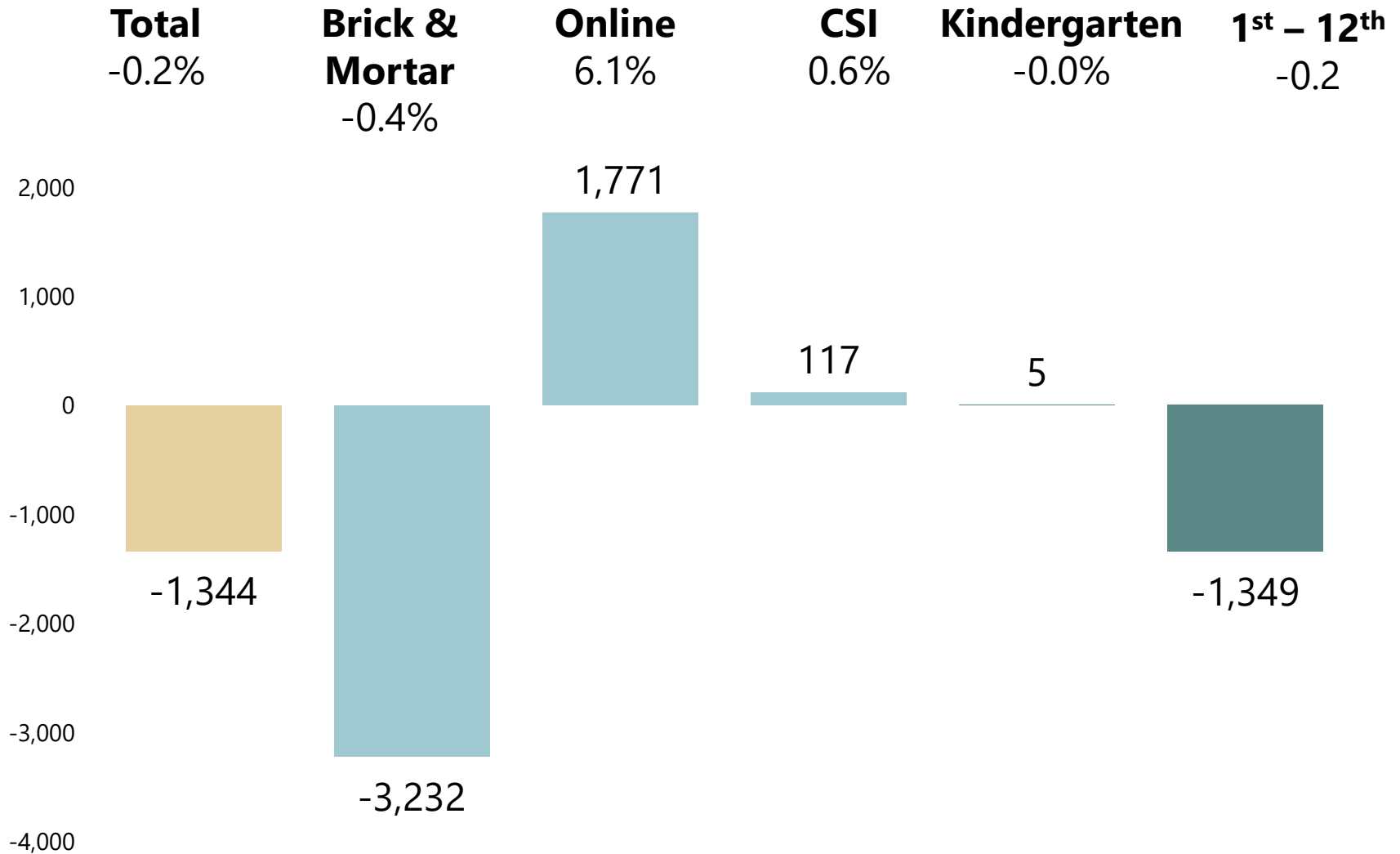
Source: Colorado Department of Education October Count

K-12 Enrollment - Forecast

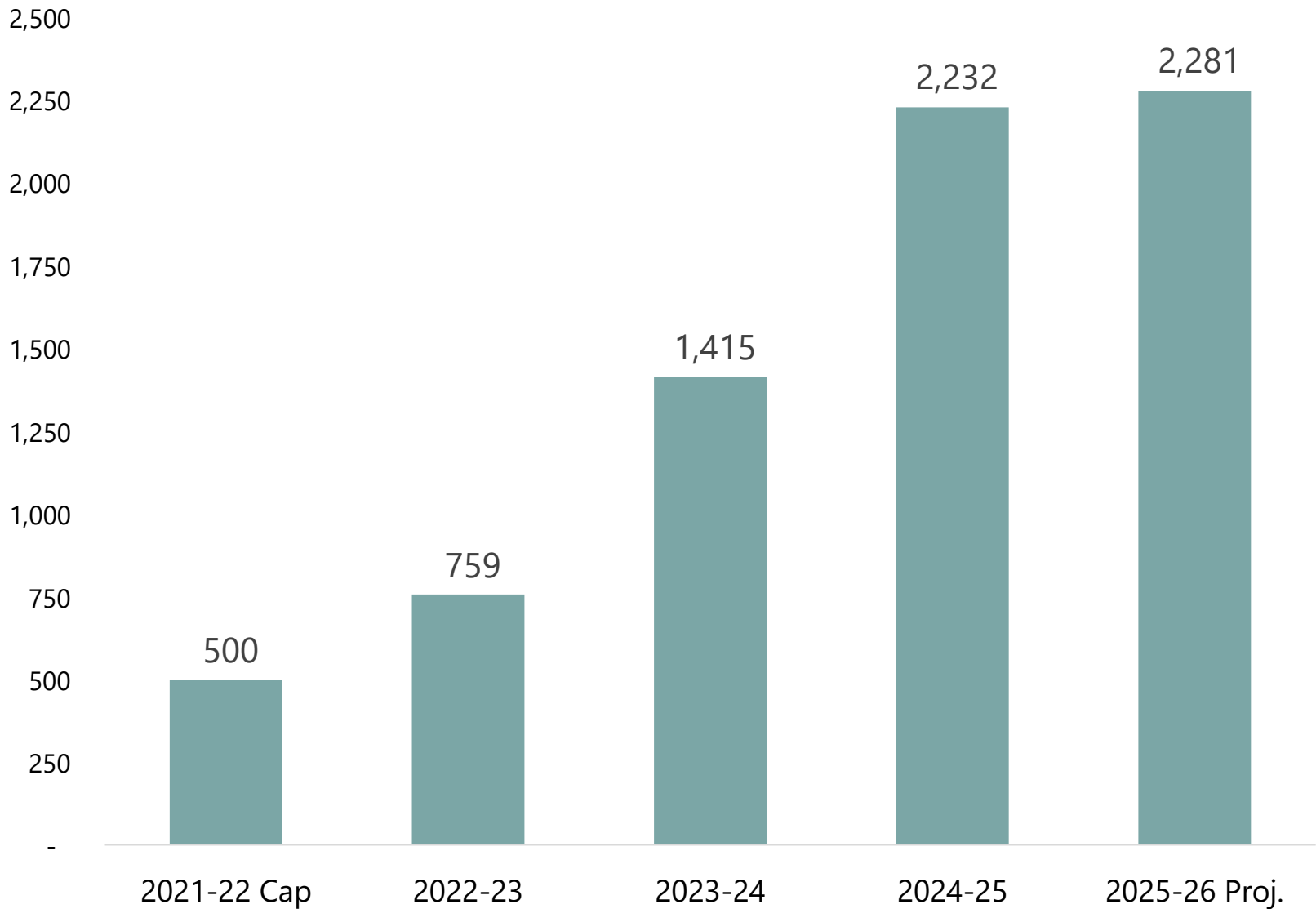
Region	Actual 2024-25	Percent Change	Estimated 2025-26	Percent Change	Estimated 2026-27	Percent Change	Average Growth
Colorado Springs	125,232	1.6%	127,062	1.5%	128,820	1.4%	1.4%
Eastern Plains	24,452	-3.3%	24,507	0.2%	24,514	0.0%	0.1%
Metro Denver	473,132	0.5%	470,912	-0.5%	468,465	-0.5%	-0.5%
Mountain	23,438	-2.2%	23,166	-1.2%	22,933	-1.0%	-1.1%
Northern	91,774	-0.8%	92,119	0.4%	92,328	0.2%	0.3%
Pueblo	30,644	-2.2%	30,324	-1.0%	30,008	-1.0%	-1.0%
San Luis Valley	6,765	-1.8%	6,736	-0.4%	6,743	0.1%	-0.2%
Southwest Mountain	11,983	-8.0%	11,930	-0.4%	11,908	-0.2%	-0.3%
Western	48,523	-1.0%	47,844	-1.4%	47,162	-1.4%	-1.4%
Statewide Total	835,942	0.01%	834,598	-0.2%	832,879	-0.2%	-0.2%

Source: Colorado Department of Education and Legislative Council Staff December 2024 forecast

Projected Change in 2025-26 Enrollment



Extended High School Enrollment



Risks to the K-12 Enrollment Forecast

Upside Risks:

- Population of five year olds expected to grow in 2025, before declining in 2026
- Students who left public education during the pandemic return more quickly than expected

Downside Risks:

- Federal deportation plans
 - Housing affordability issues continue to limit options for families
 - Lower birth rates constrain enrollment more than expected
- Actual counts for some individual districts are out of trend

Questions?

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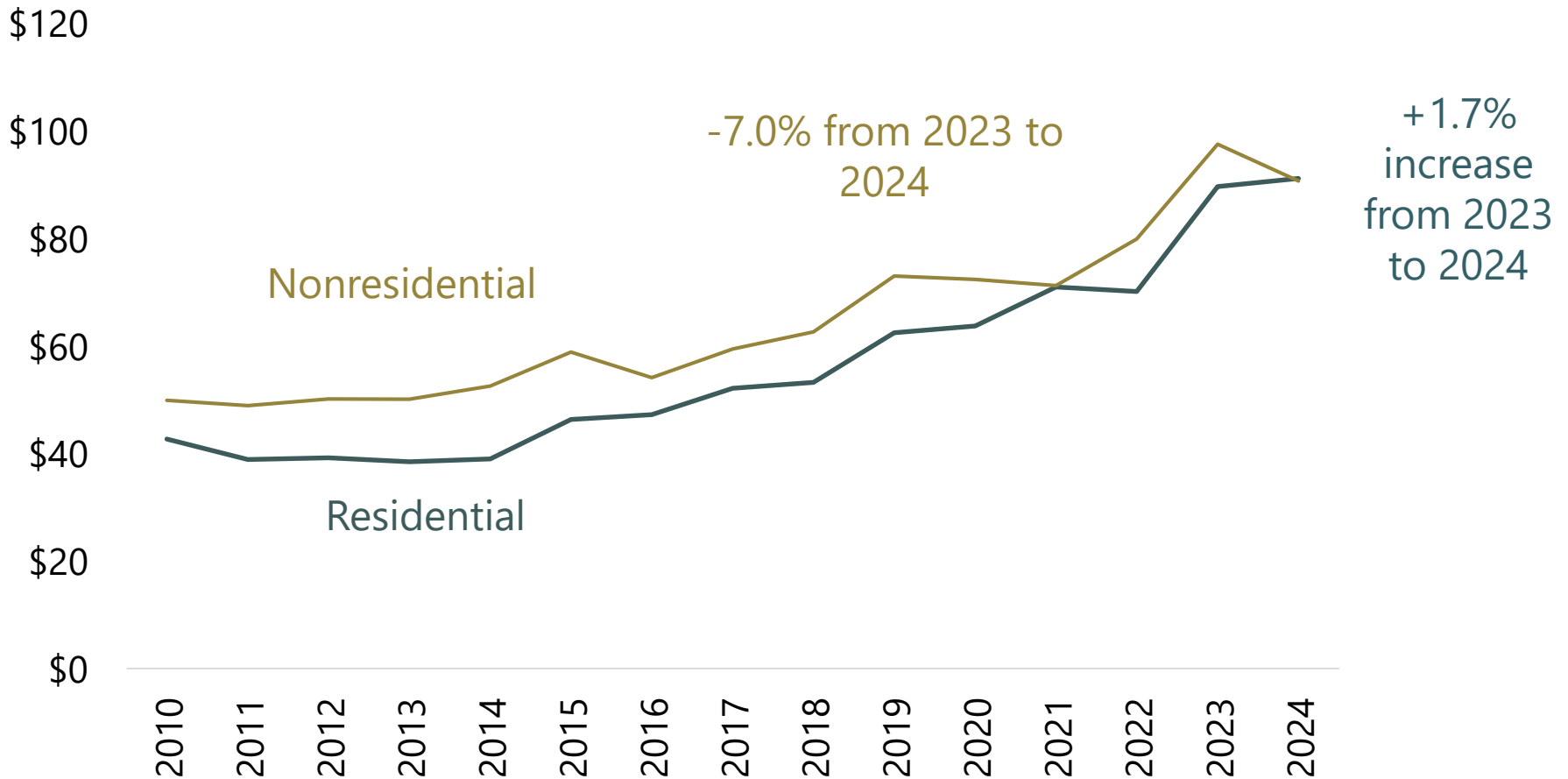


School District Assessed Values



Values down 2.8% as nonresidential offsets residential growth from property tax year 2023 to 2024

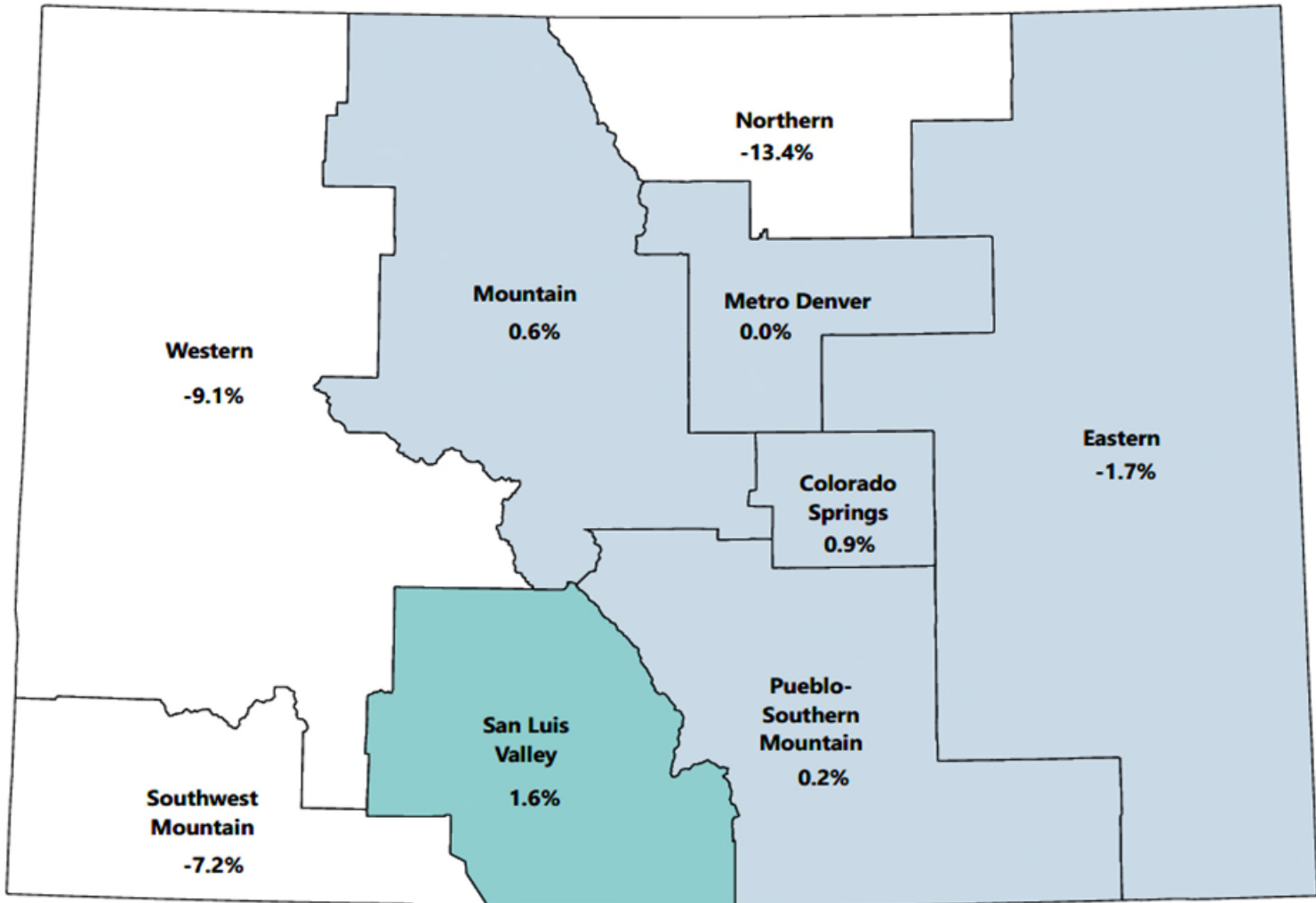
Residential and nonresidential assessed valuation
Dollars in Billions



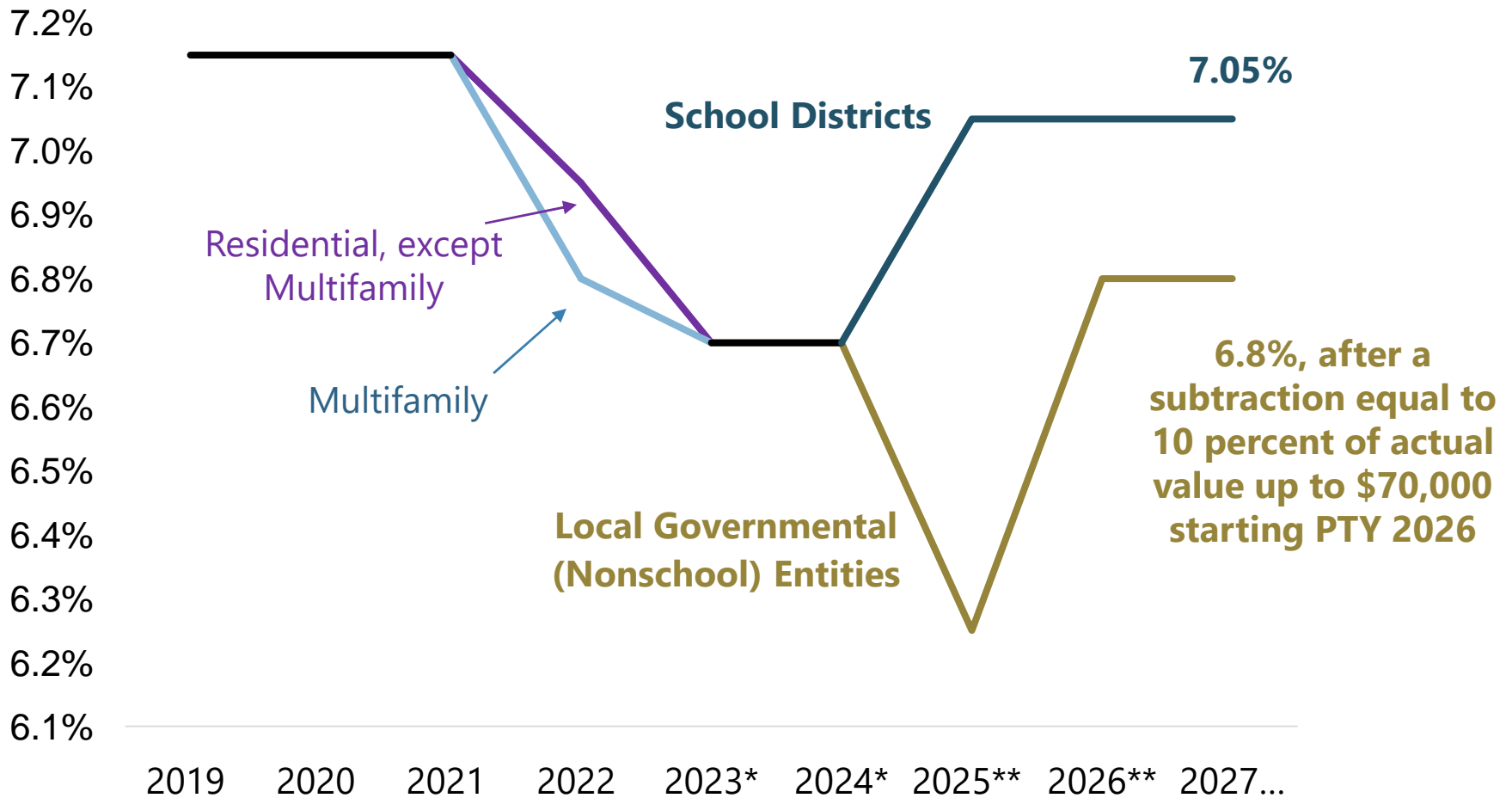
Source: Legislative Council Staff.

2024 Intervening Year: -2.8% growth

Oil and gas intensive regions experienced year-over-year declines, with slight growth in other areas of the state.



Residential assessment rates projected under current law

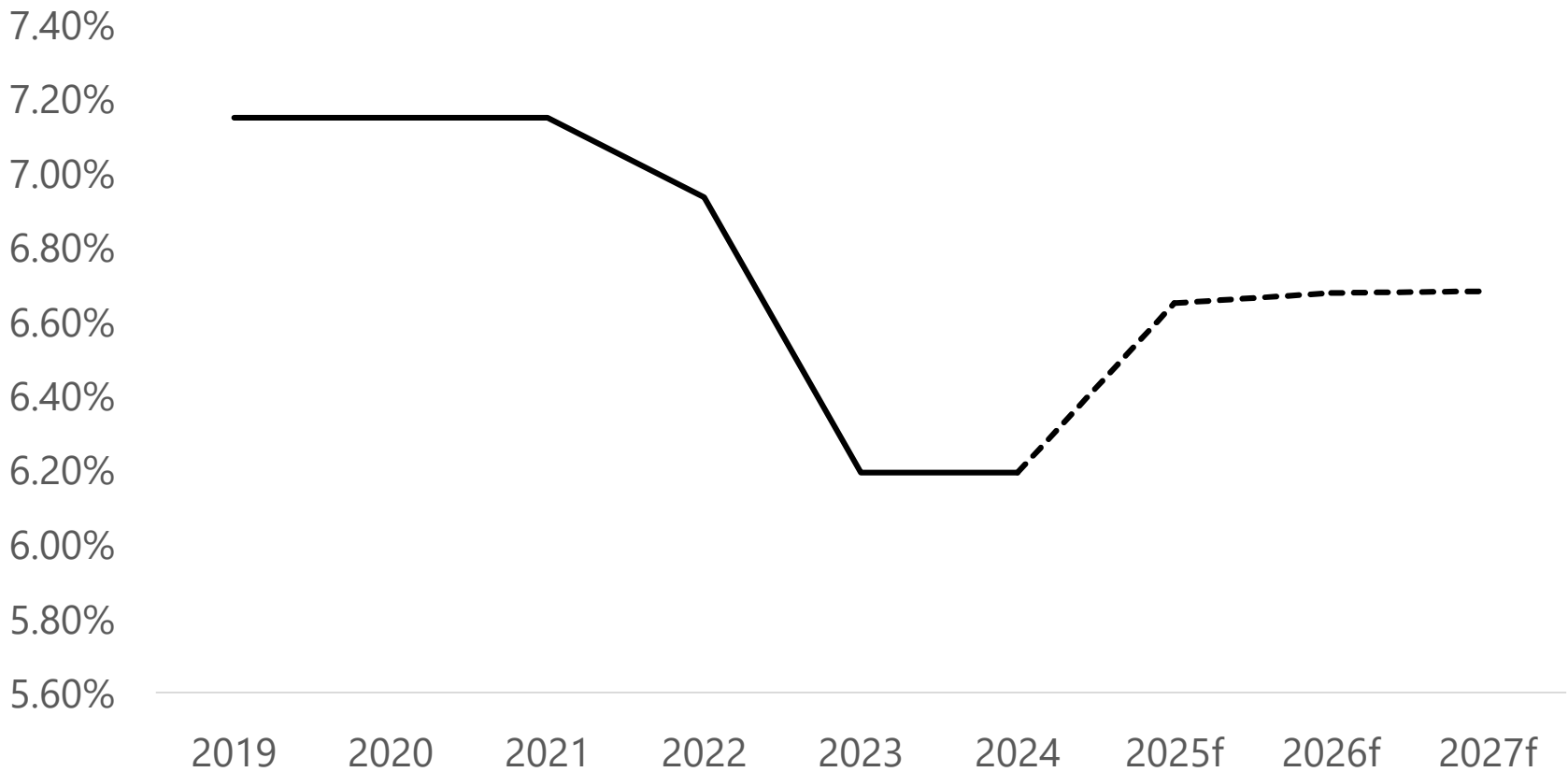


* Assessment rate is applied to the actual value of the property minus \$55,000.

**Assessment rates depend on statewide growth in actual value and assumes growth below 5 percent. If growth exceeds 5 percent, the non-school rate is 6.15 percent in 2025 and 6.7 percent in 2026 and future years, the school rate is 6.95 percent.

Effective residential assessment rate to rise to an estimated 6.7 percent for PTY 2025

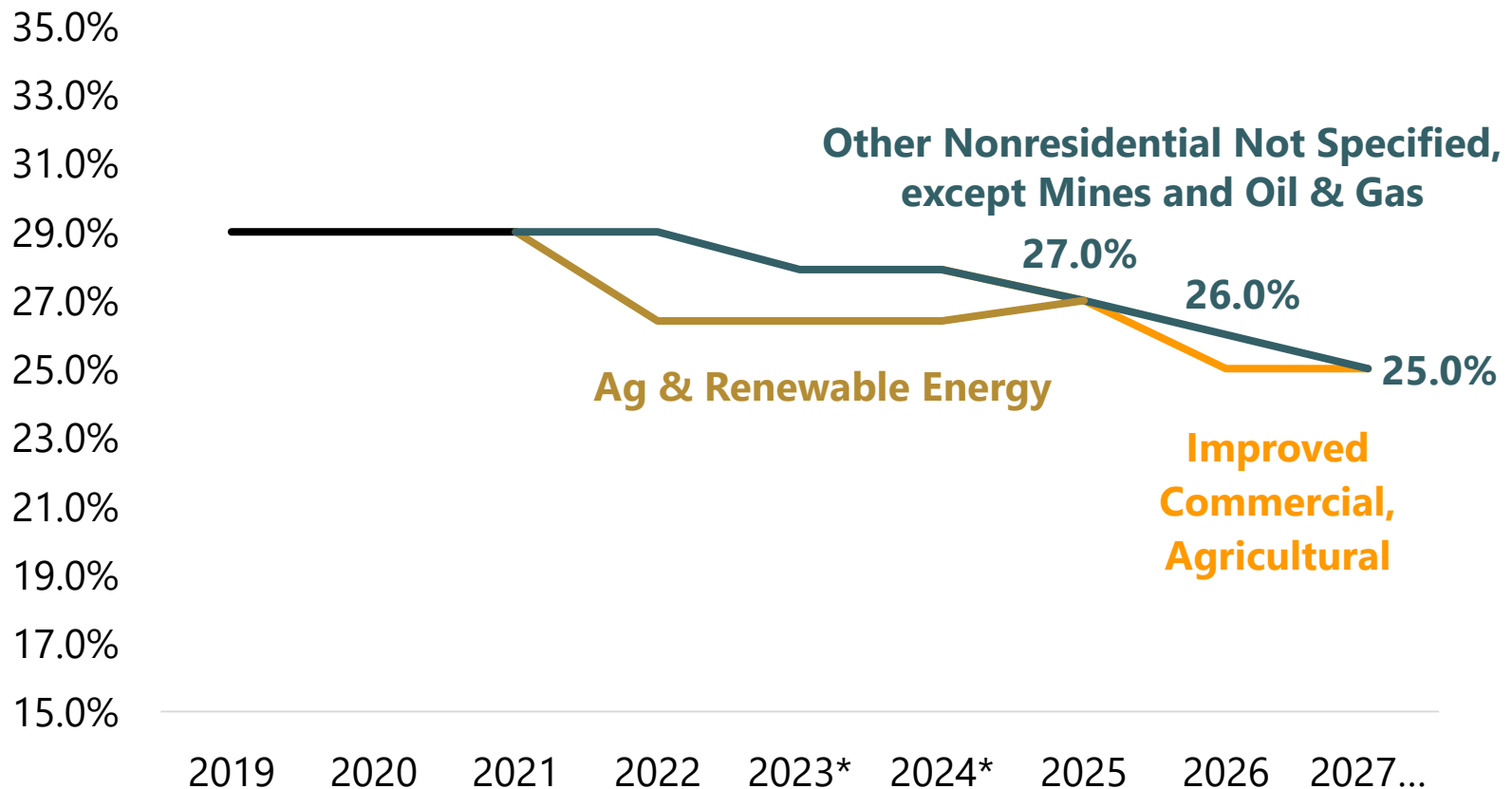
Estimated effective residential assessment rates projected under current law



Note: Effective residential assessment rate estimated as assessed value divided by estimated actual value for each property tax year, and weighted for school and non-school district mill levies.

Nonresidential assessment rates for most property classes decrease to 25% by PTY 2027

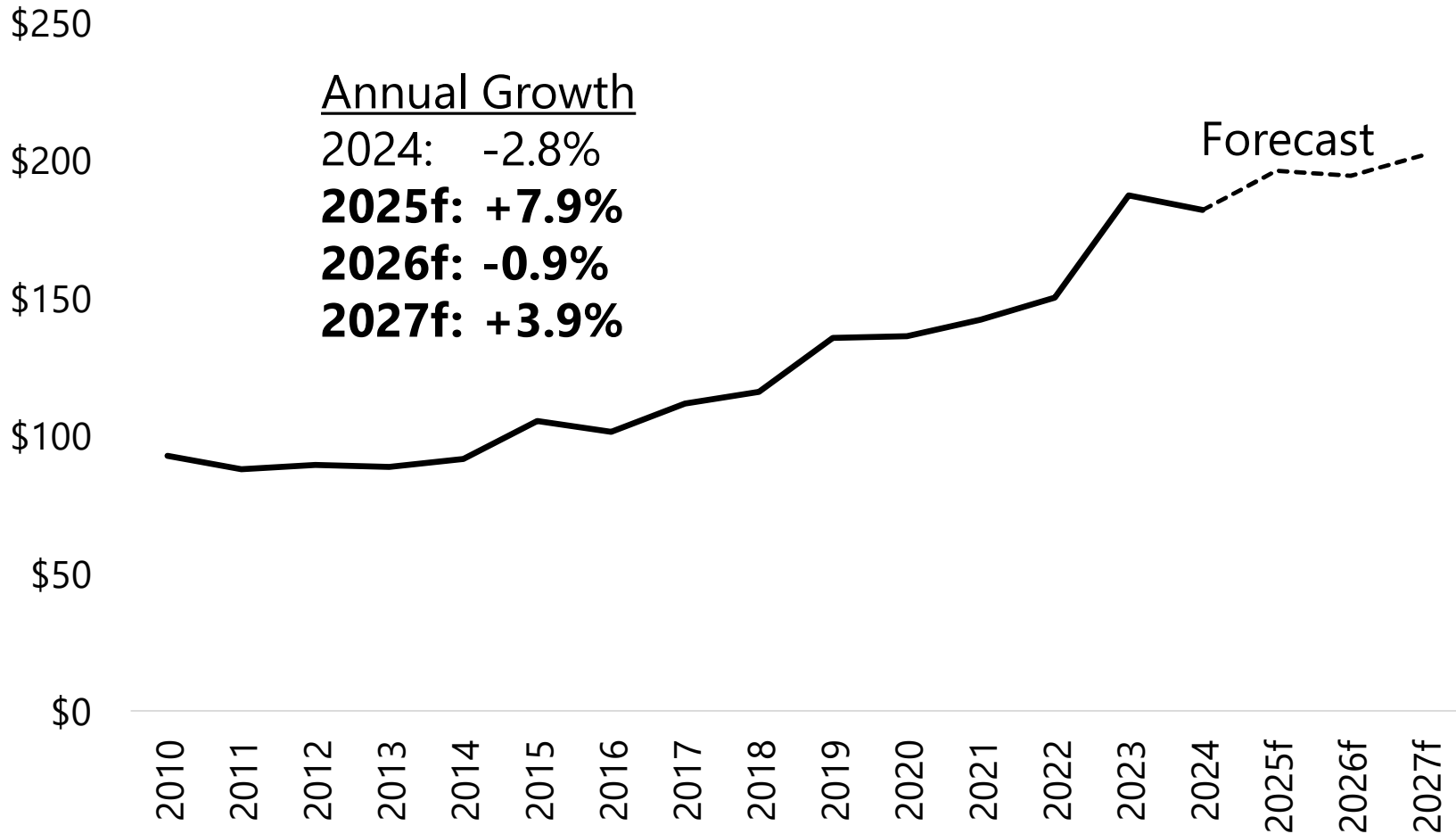
Nonresidential assessment rates



Source: Legislative Council Staff. Does not include oil and gas land and leaseholds, producing mines, and severed mineral interests that are assessed at varying rates. Assessment rate applied to commercial improved and lodging property after a \$30,000 actual value reduction in 2023.

Assessed value for school districts expected to increase modestly in the 2025 reassessment year

Dollars in Billions



Source: Legislative Council Staff, f=forecast

2025 Reassessment Year

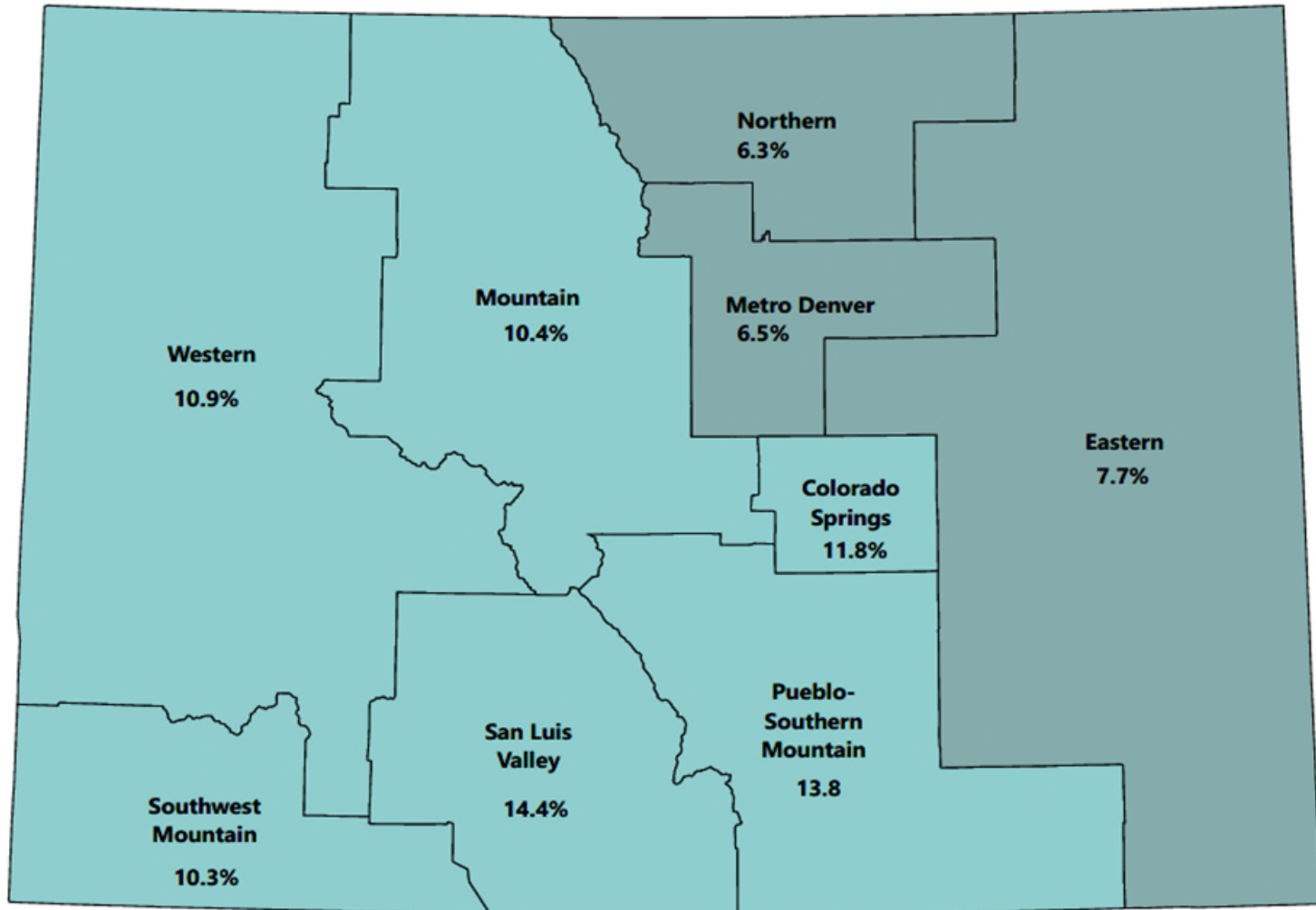
- Determines school finance for FY 2025-26
- Actual value reassessed for most classes of property, including residential and commercial
- Slow but positive growth due to property reassessment, but higher growth in total with policy changes
- **Residential** jump in value for school districts
- **Nonresidential** value down slightly with lower assessment rates

Projected year-over-year assessed value growth rates

	PTY 2025	PTY 2026	PTY 2027
Schools			
Residential	16.4%	1.2%	6.1%
Nonresidential	-0.7%	-3.4%	1.3%
Total	7.9%	-0.9%	3.9%
Nonschools			
Residential	3.2%	2.1%	6.1%
Nonresidential	-0.7%	-3.4%	1.3%
Total	1.2%	-0.6%	3.9%

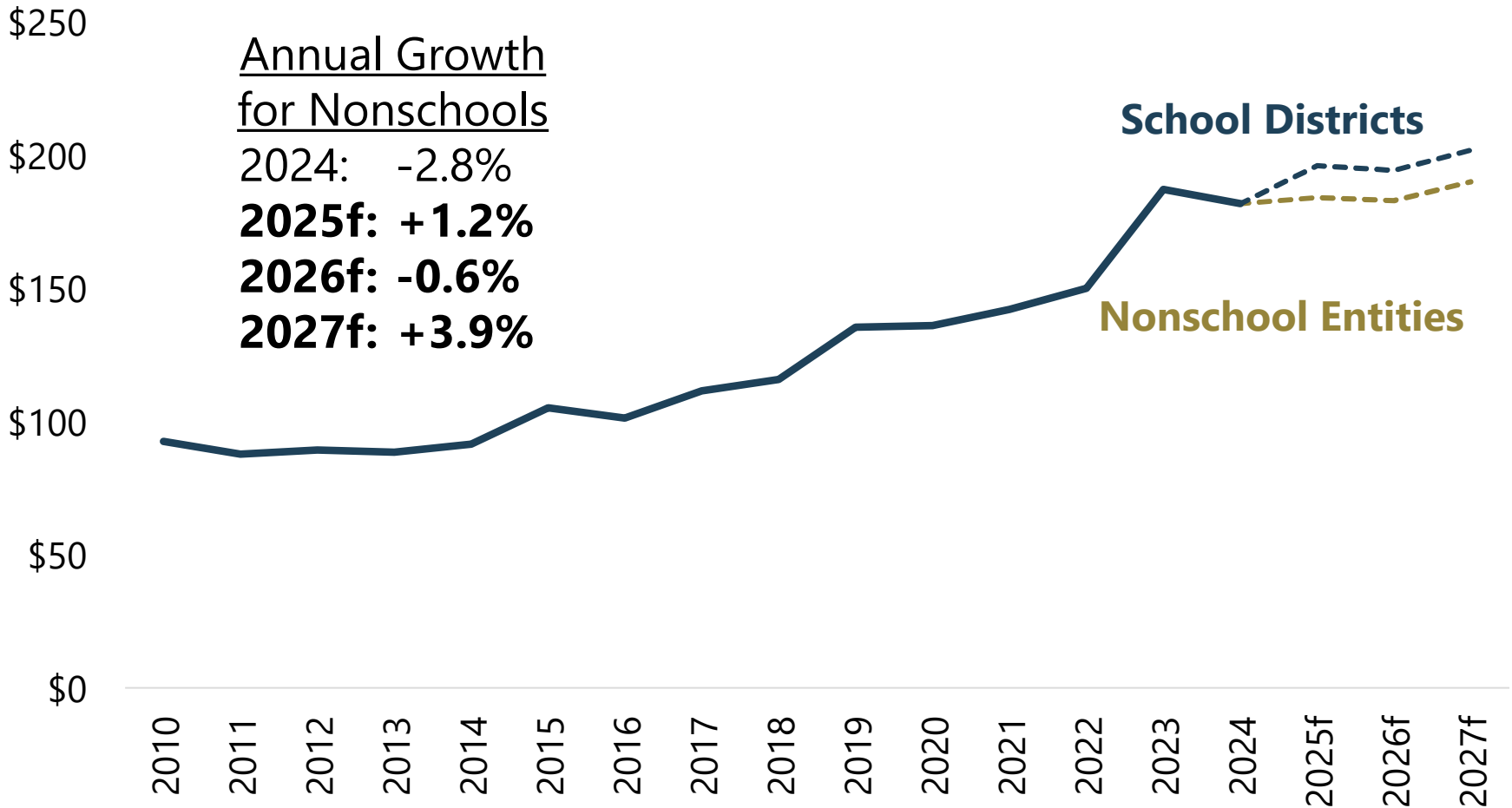
2025 Reassessment Year: 7.9% growth

Fastest residential growth in lower value areas of the state that experienced a larger relative impact of 2024 legislative adjustments



Assessed value growth for nonschool entities to increase more slowly than for schools

Dollars in Billions



Source: Legislative Council Staff, f=forecast

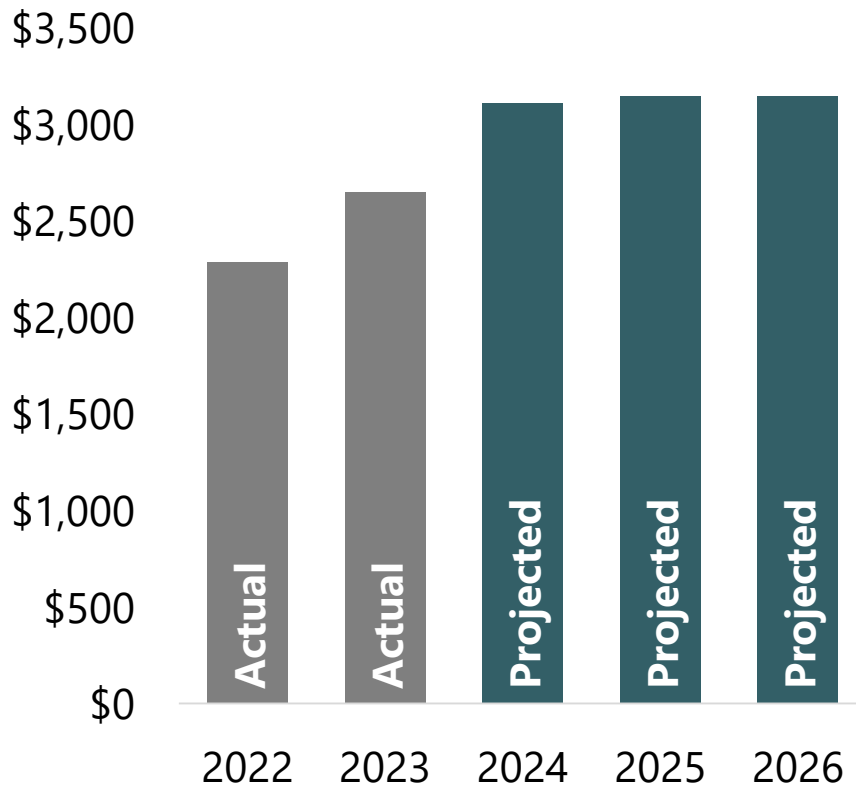
Risks to the Assessed Valuation Forecast

- Market conditions, including:
 - Ongoing real estate correction
 - Impact of lower interest rates and 2026 market conditions on PTY 2027
 - Value of oil and gas production through the forecast period
- Evolving property tax policy environment
 - Forecast relies on a projection of actual value growth from 2024 to 2025
 - Forecast anticipates school district limit will not be reached

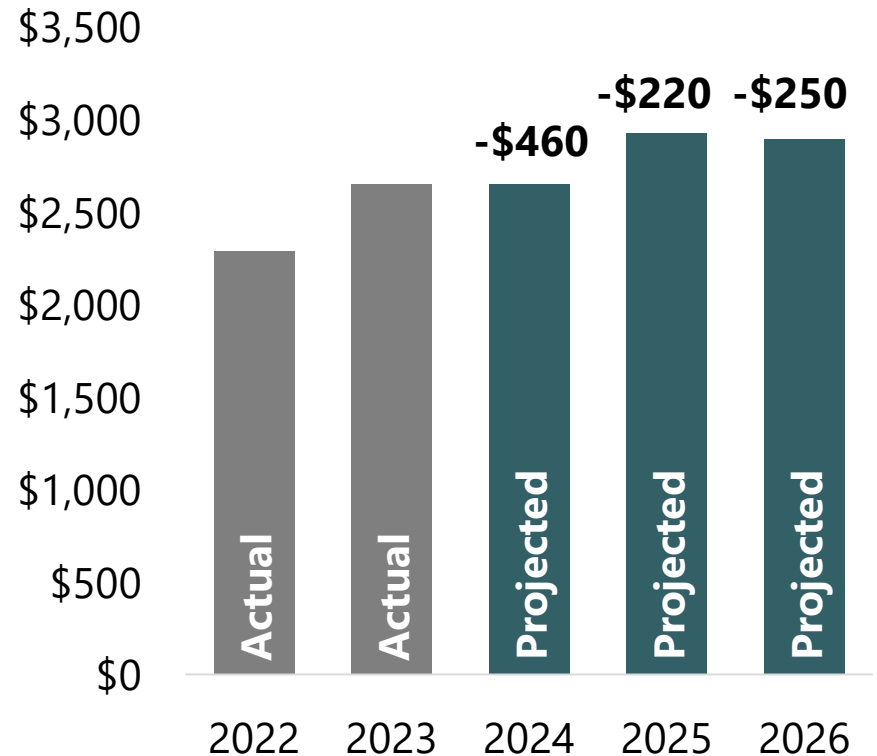
Supplemental Slides

Estimated property tax for a median home

Prior to Senate Bill 24-233



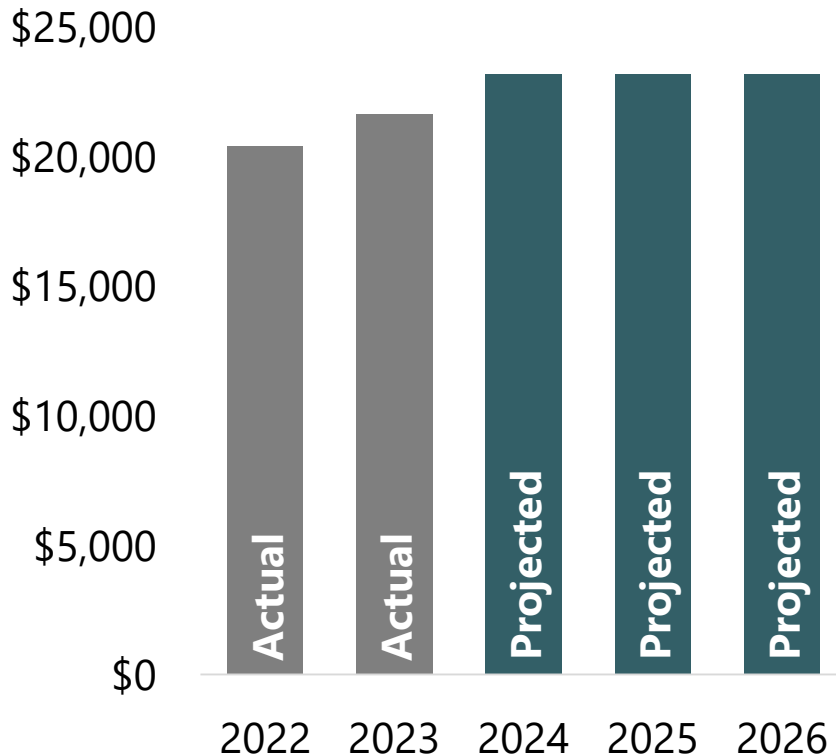
Current Law



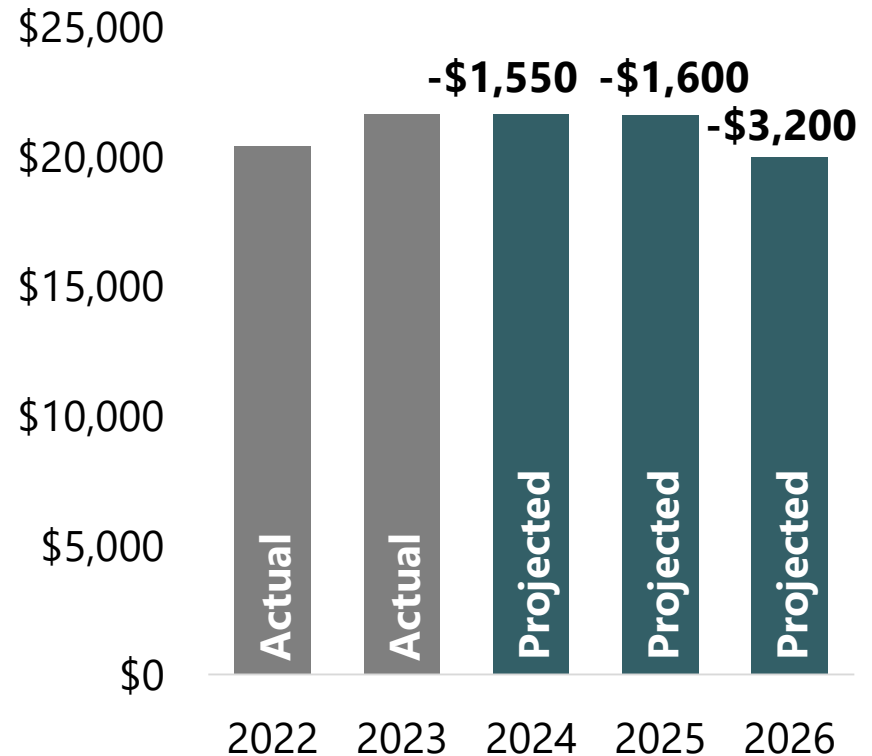
*Example assumes 40 school district mills and 40 non-school district mills. Assumes a property valued at \$400,000 in 2022, \$550,000 in 2023, and no growth in the 2025 reassessment year. Actual property taxes will depend on local mill levies and property value.

Estimated property tax for improved commercial

Prior to Senate Bill 24-233



Current Law



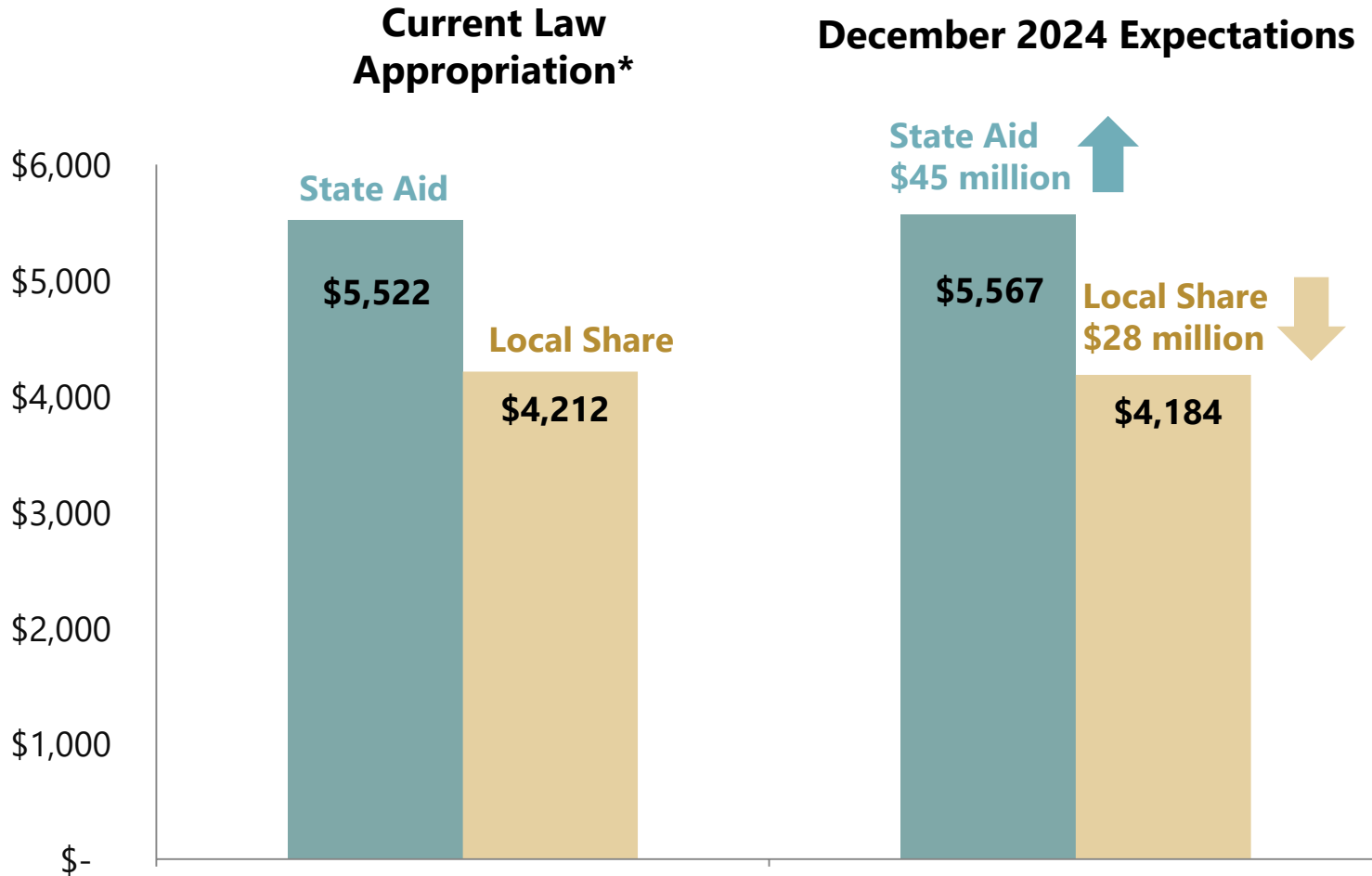
*Example assumes 80 mills. Assumes a property valued at \$880,000 in 2022, \$1,000,000 in 2023, and no growth in the 2025 reassessment year. Actual property taxes will depend on local mill levies and property value.

School Finance Outlook



Change in Expectations for FY 2024-25 School Finance Funding

Dollars in Millions

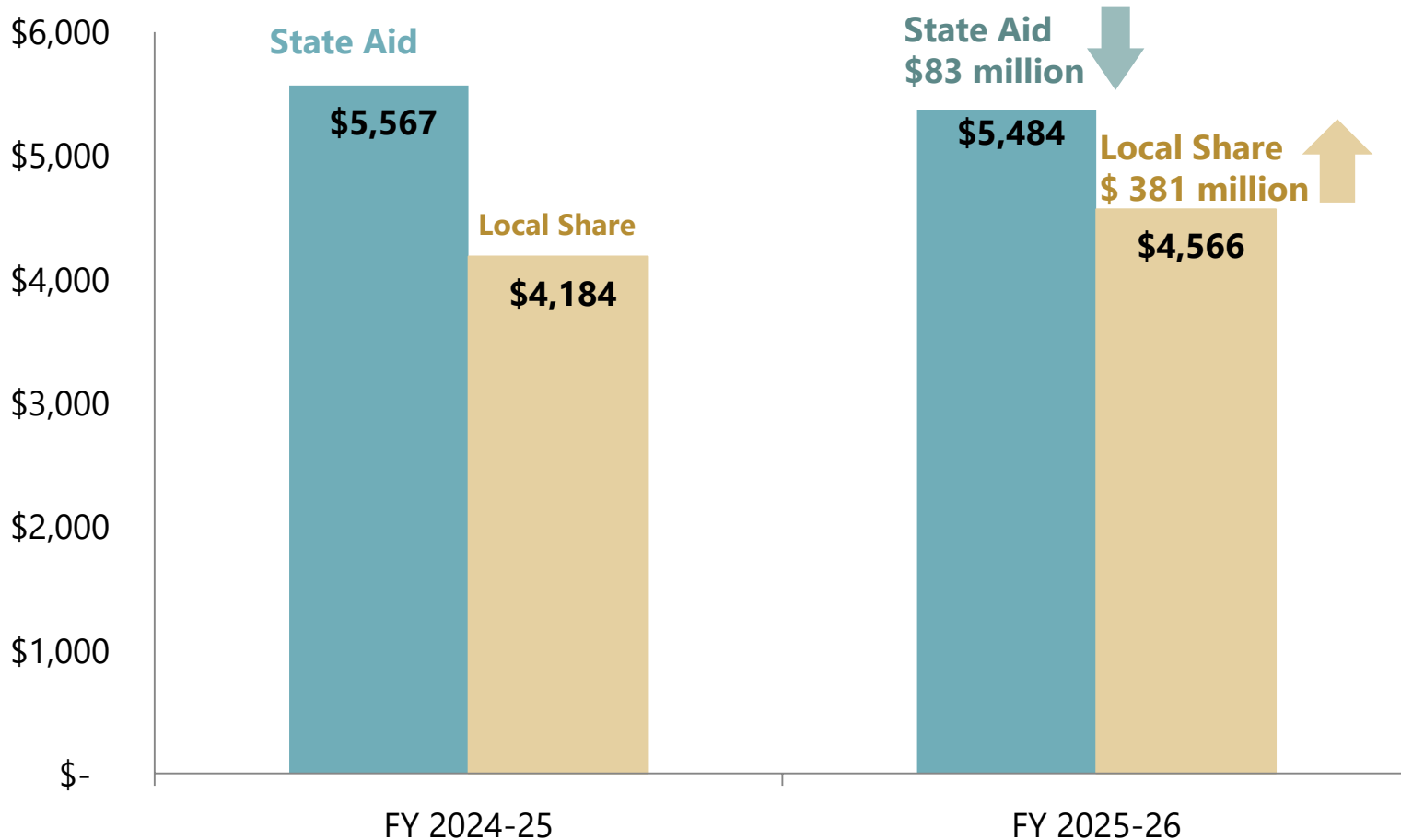


Source: Legislative Council Staff December 2024 forecast
*Current law appropriation uses December 2023 forecast

Year-over-Year Change in School Finance Funding

FY 2024-25 to FY 2025-26*

Dollars in Millions



Source: Legislative Council Staff December 2024 forecast

*Assumes the new formula is phased in as specified under current law in FY 2025-26

State Education Fund Scenarios

- If the **General Fund contribution** to school finance is:
 - **held constant**, the SEF balance will be negative in FY 2026-27.
 - **increases by 4.2%** (historical growth), the SEF balance will be negative in FY 2028-29.
 - **increases by 4.5%**, the SEF will maintain a positive balance throughout the forecast period, with an ending balance of ~\$100 million in FY 2028-29.
- Scenarios are highly dependent on property tax revenue:
 - assumes 8.4% increase in 2025 reassessment year;
 - assumes 3.8% increase in 2027 reassessment year.

New School Finance Formula Implementation

Increases total program by \$101 million in FY 2025-26, increase by about \$468 million by the end of the six year phase in period (FY 2030-31)

Implementation of the formula is paused if:

- **Local share changes** by less than inflation minus 2% (assessment year) or decreases by at least 2% (non-assessment year)



Recent property tax bills are not expected to trigger pause.

- **Income tax diversion to the SEF** will decrease by at least 5%, as predicted by the March revenue forecast



One-time correction of SEF transfers in FY 2023-24 may require legislative clarification.

Questions?

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State Education Fund Ending Balances

Current Law (1448) vs the Governor's Request (R1)

General Fund Scenario:	Constant (0% Growth)		Based on GF Revenue Growth (~5% Growth)		Historical Growth (4.2% Growth)		Required Maintain SEF Balance (4.5% Growth)	
	Current Law	OSPB (R1)	Current Law	OSPB (R1)	Current Law	OSPB (R1)	Current Law	OSPB (R1)
FY 2024-25	\$1,157	\$1,157	\$1,157	\$1,157	\$1,157	\$1,157	\$1,157	\$1,157
FY 2025-26	\$540	\$755	\$759	\$973	\$726	\$939	\$739	\$951
FY 2026-27	-\$256	\$161	\$400	\$820	\$294	\$713	\$334	\$753
FY 2027-28	-\$1,026	-\$418	\$298	\$911	\$81	\$692	\$162	\$774
FY 2028-29	-\$1,902	-\$1,101	\$336	\$1,146	-\$36	\$769	\$102	\$909

State Education Fund Modeling Scenarios

General Fund Scenario:	Constant (0% Growth)		Based on GF Revenue Growth (~5% Growth)		Historical Growth (4.2% Growth)		Required Maintain SEF Balance (4.5% Growth)	
	SEF Contribution	SEF End Balance	SEF Contribution	SEF End Balance	SEF Contribution	SEF End Balance	SEF Contribution	SEF End Balance
FY 2024-25	\$1,209	\$1,157	\$1,209	\$1,157	\$1,209	\$1,157	\$1,209	\$1,157
FY 2025-26	\$1,191	\$540	\$979	\$759	\$1,013	\$726	\$1,000	\$739
FY 2026-27	\$1,424	-\$256	\$989	\$400	\$1,060	\$294	\$1,034	\$334
FY 2027-28	\$1,442	-\$1,026	\$774	\$298	\$885	\$81	\$844	\$162
FY 2028-29	\$1,596	-\$1,902	\$683	\$336	\$838	-\$36	\$780	\$102

State Education Fund Modeling Scenarios

Governor's Request (R1)

General Fund Scenario:	Constant (0% Growth)		Based on GF Revenue Growth (~5% Growth)		Historical Growth (4.2% Growth)		Required Maintain SEF Balance (4.5% Growth)	
	SEF Contribution	SEF End Balance	SEF Contribution	SEF End Balance	SEF Contribution	SEF End Balance	SEF Contribution	SEF End Balance
FY 2024-25	\$1,209	\$1,157	\$1,209	\$1,157	\$1,209	\$1,157	\$1,209	\$1,157
FY 2025-26	\$979	\$755	\$767	\$973	\$801	\$939	\$788	\$951
FY 2026-27	\$1,223	\$161	\$788	\$820	\$859	\$713	\$833	\$753
FY 2027-28	\$1,252	-\$418	\$583	\$911	\$695	\$692	\$653	\$774
FY 2028-29	\$1,402	-\$1,101	\$489	\$1,146	\$644	\$769	\$586	\$909

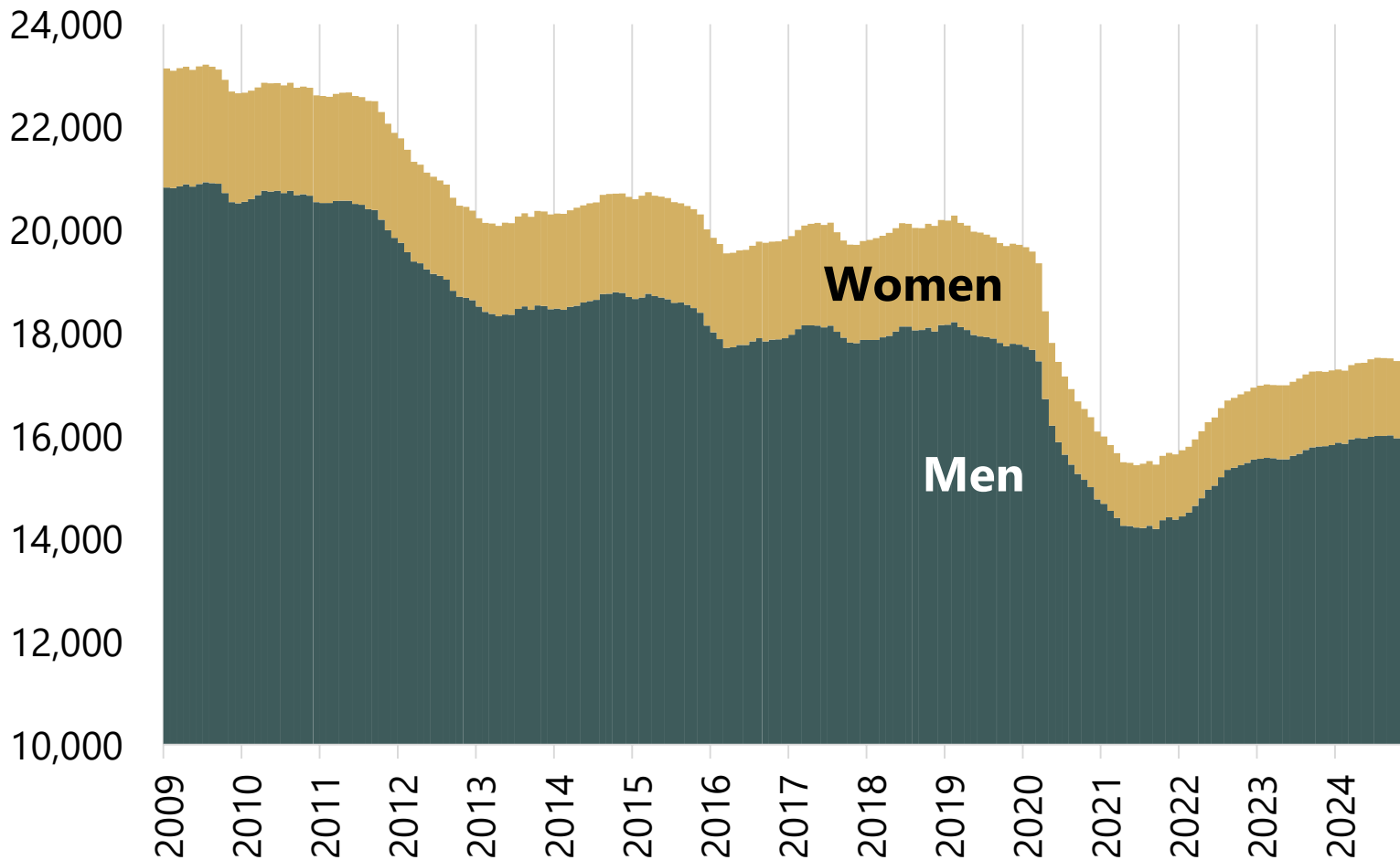
School Finance Basics

- **Funded Pupil Count** is the statutory student count metric used to allocate funding.
- **State Aid** = Total Program - Local Share.
- No more **Budget Stabilization Factor**
- General Assembly balances contributions to State Aid from **General Fund** and **State Education Fund**.
- Phase-in of new school finance formula begins in FY 2025-26

Adult Corrections Populations

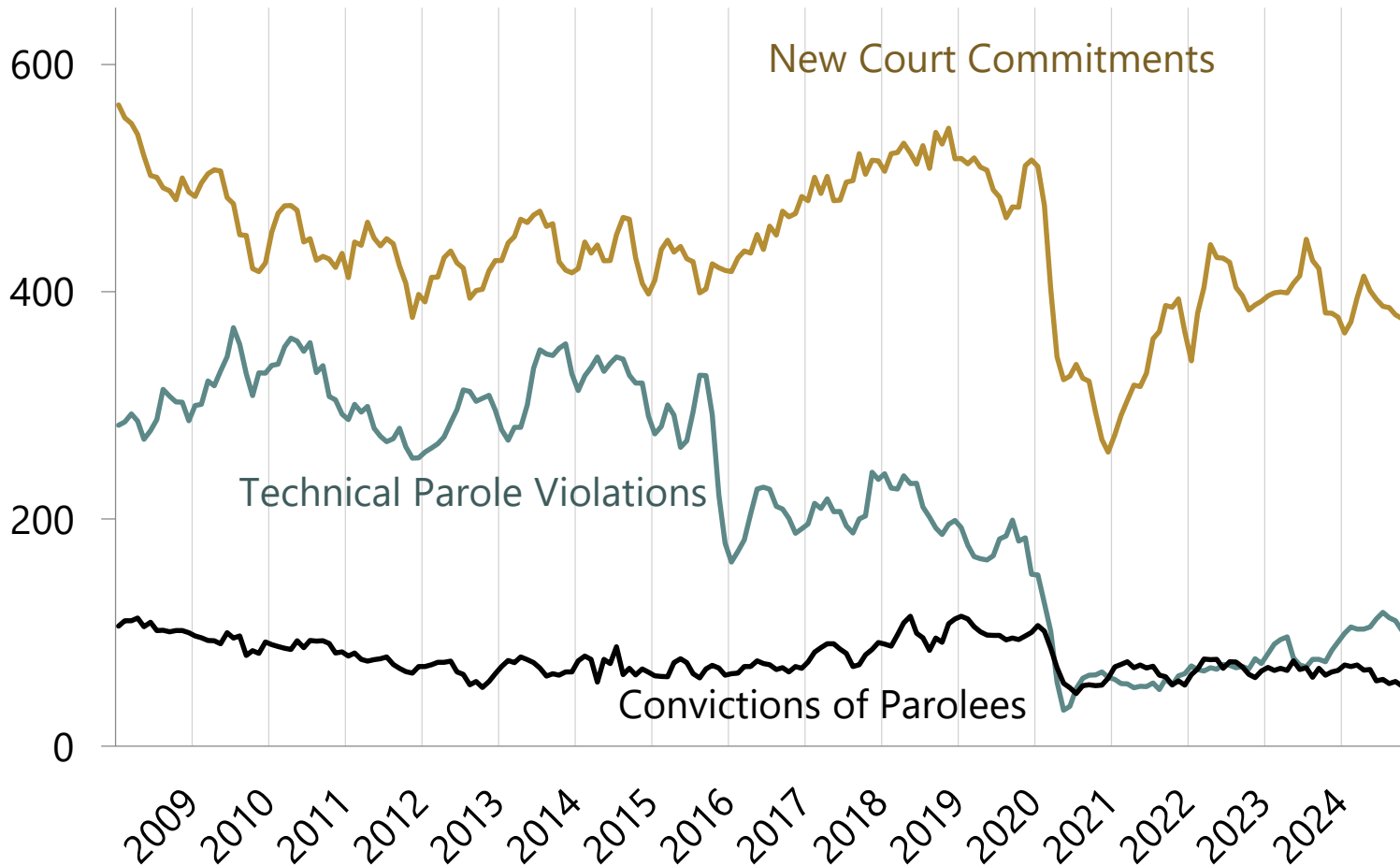


Prison population growth continues to slow, to 2.6 percent in FY 2023-24, down from 4.2 percent in FY 2022-23



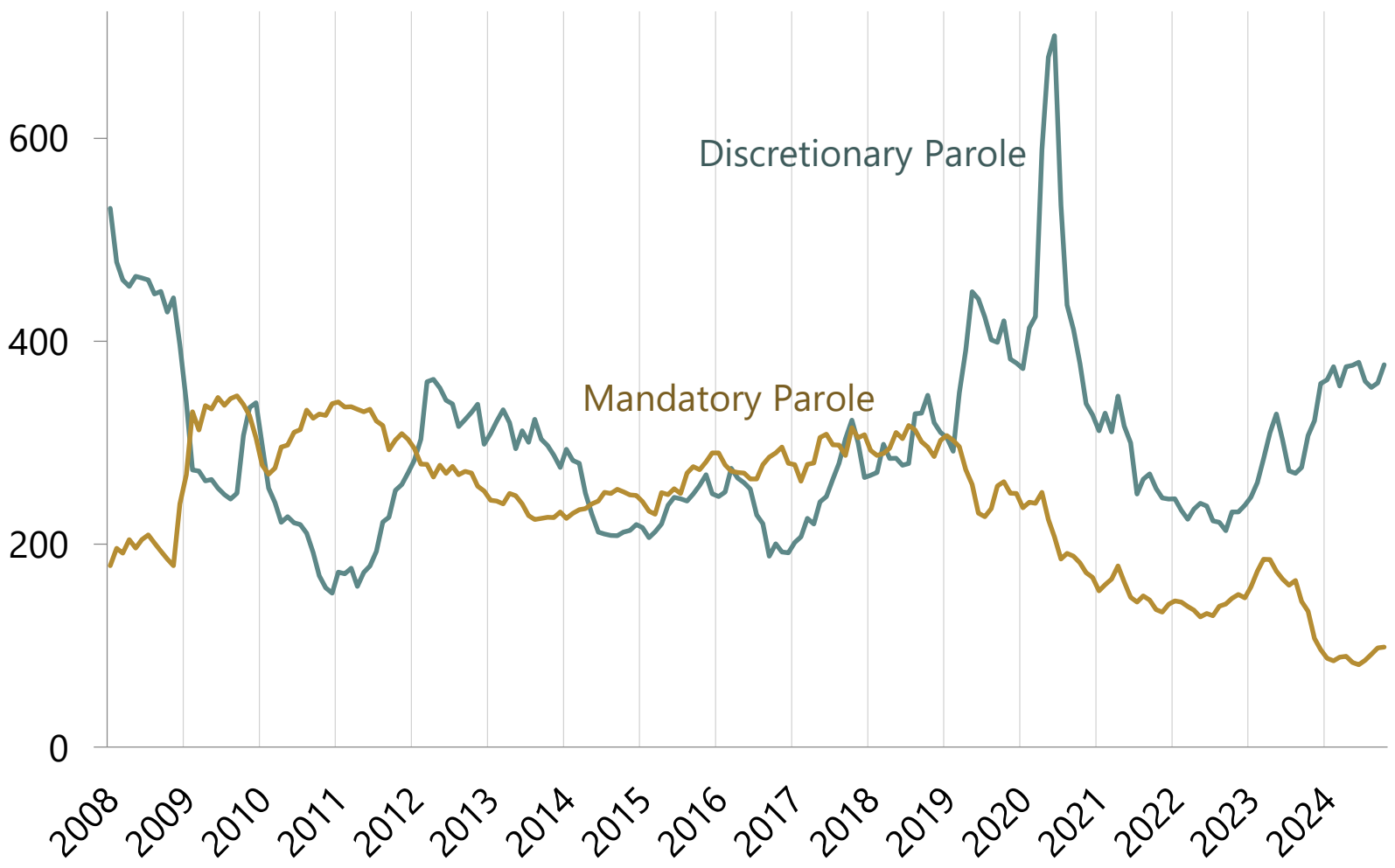
Source: Department of Corrections, Office of Planning and Analysis. Monthly data through November 2024.

New court commitments declining, offset by technical parole violations



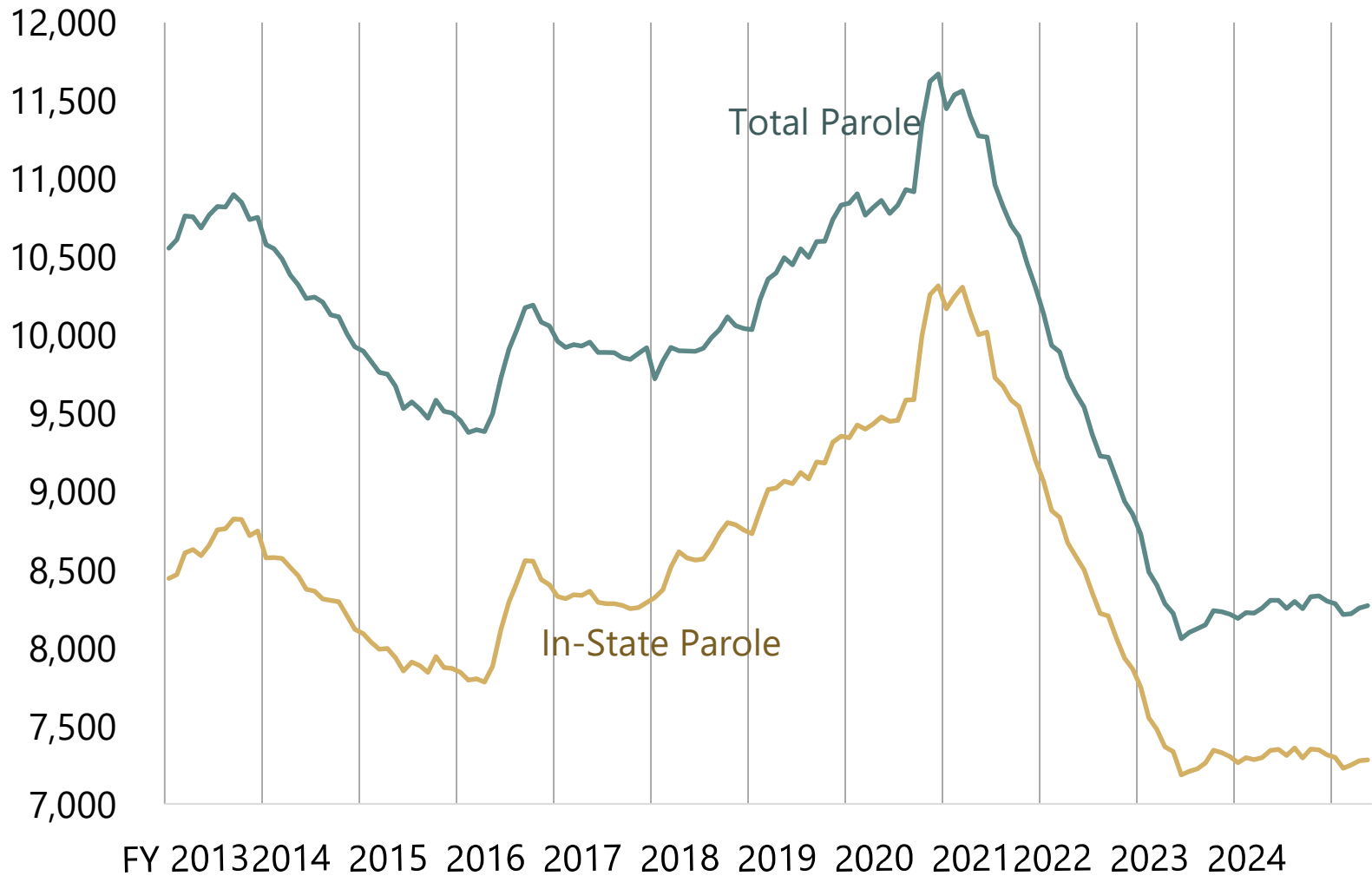
Source: Department of Corrections, Office of Planning and Analysis. Monthly data through November 2024.

Discretionary releases on the rise, offset by mandatory releases



Source: Department of Corrections, Office of Planning and Analysis. Data through November 2024.

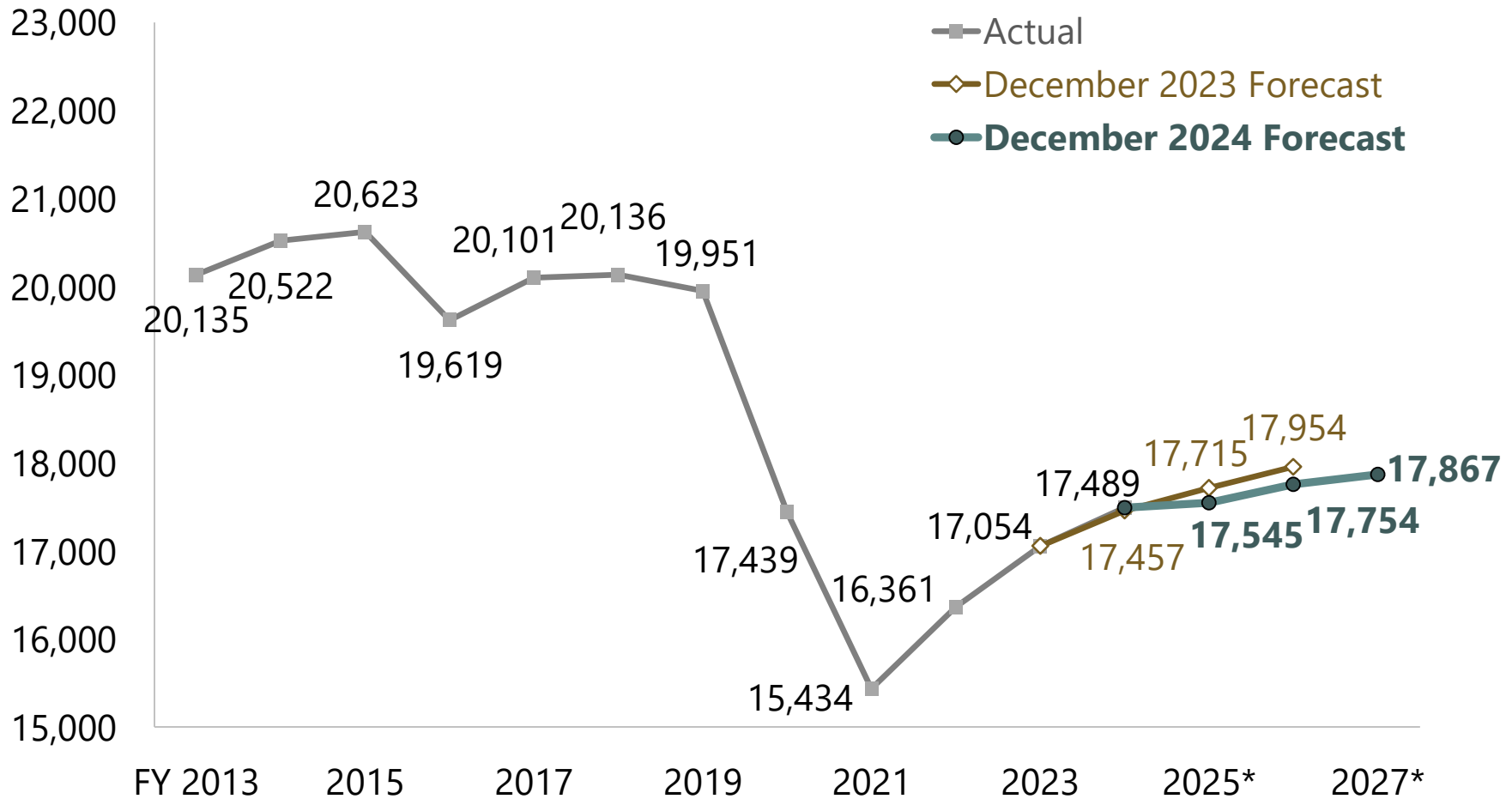
Parole population stable



Source: Department of Corrections, Office of Planning and Analysis. Data through November 2024.

Prison population expected to rise slowly

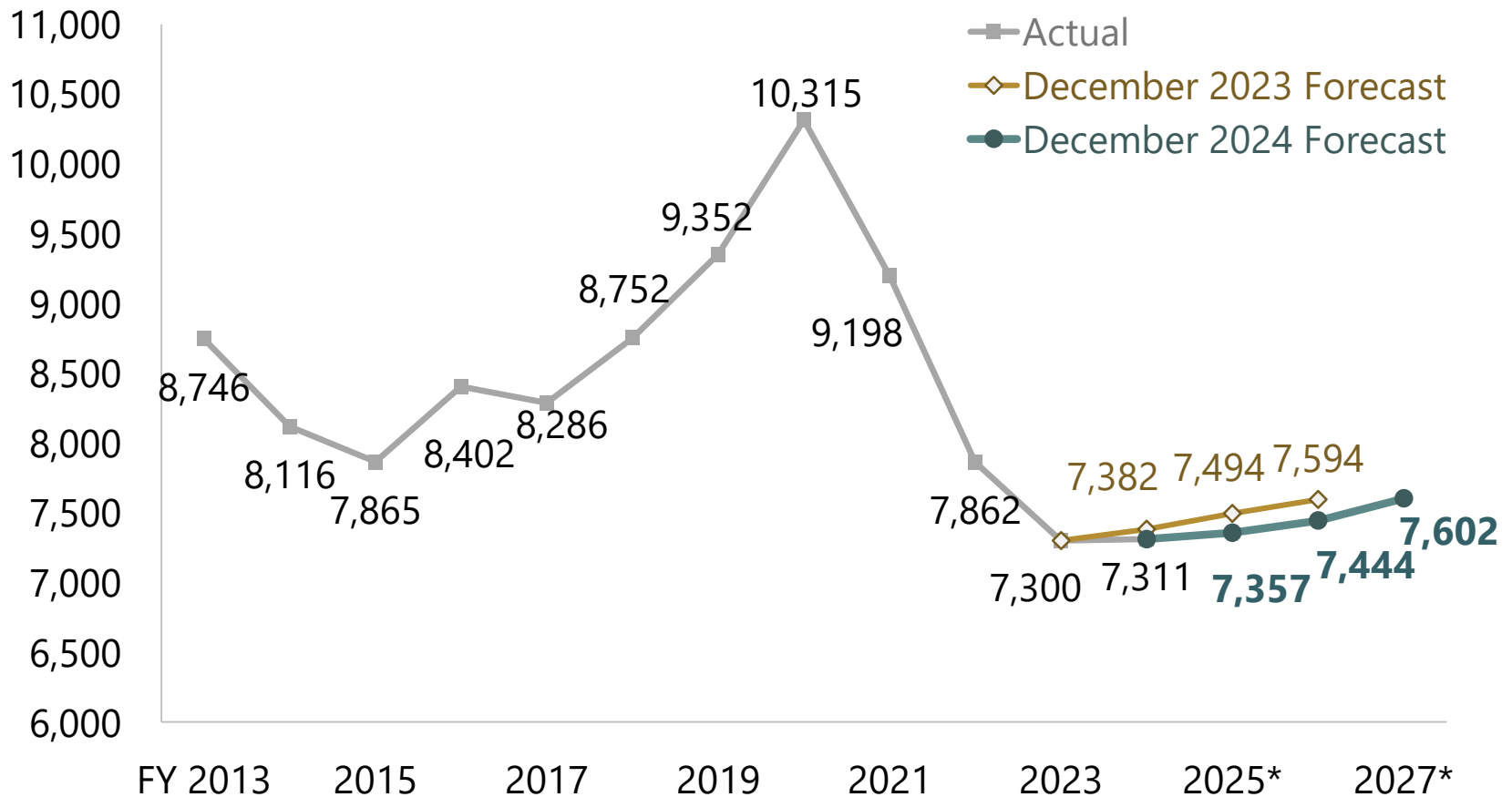
Adult Inmate Population Forecasts as of June 30



Source: Department of Corrections, Office of Planning and Analysis and *Legislative Council Staff December 2024 forecast.

Parole caseload expected to rise slowly

Adult Parole Caseload Forecasts as of June 30



Source: Department of Corrections, Office of Planning and Analysis and *Legislative Council Staff December 2024 forecast.

Forecast expects current patterns to persist

- **This forecast always contains (bidirectional) error**

- Before 2020, current year forecast error averaged about 1.7 percent, or 328 inmates
- Forecast error from the 2023 forecast was 0.2 percent, or 32 inmates in June 2024

- **Prison and parole populations have stabilized, but risk remains**

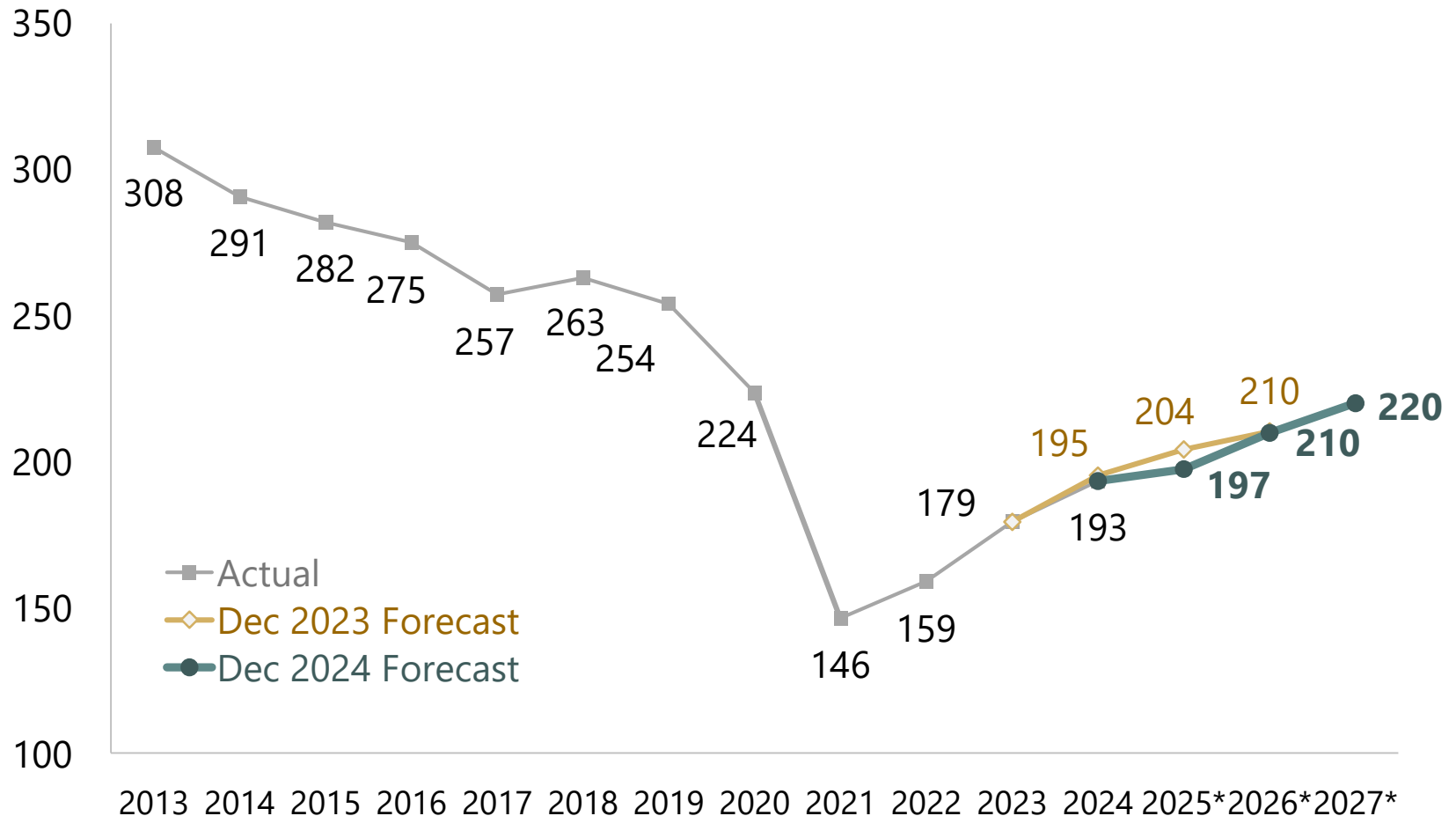
- The forecast assumes that the population will return to pre-pandemic patterns of relative stability with slower growth and some periods of decline
- The possibility of unforeseen disruptors raises risk
- Small deviations in the timing and extent of assumed adjustments can contribute to large population changes

Youth Corrections Population Forecast



Continued increases expected in detention population

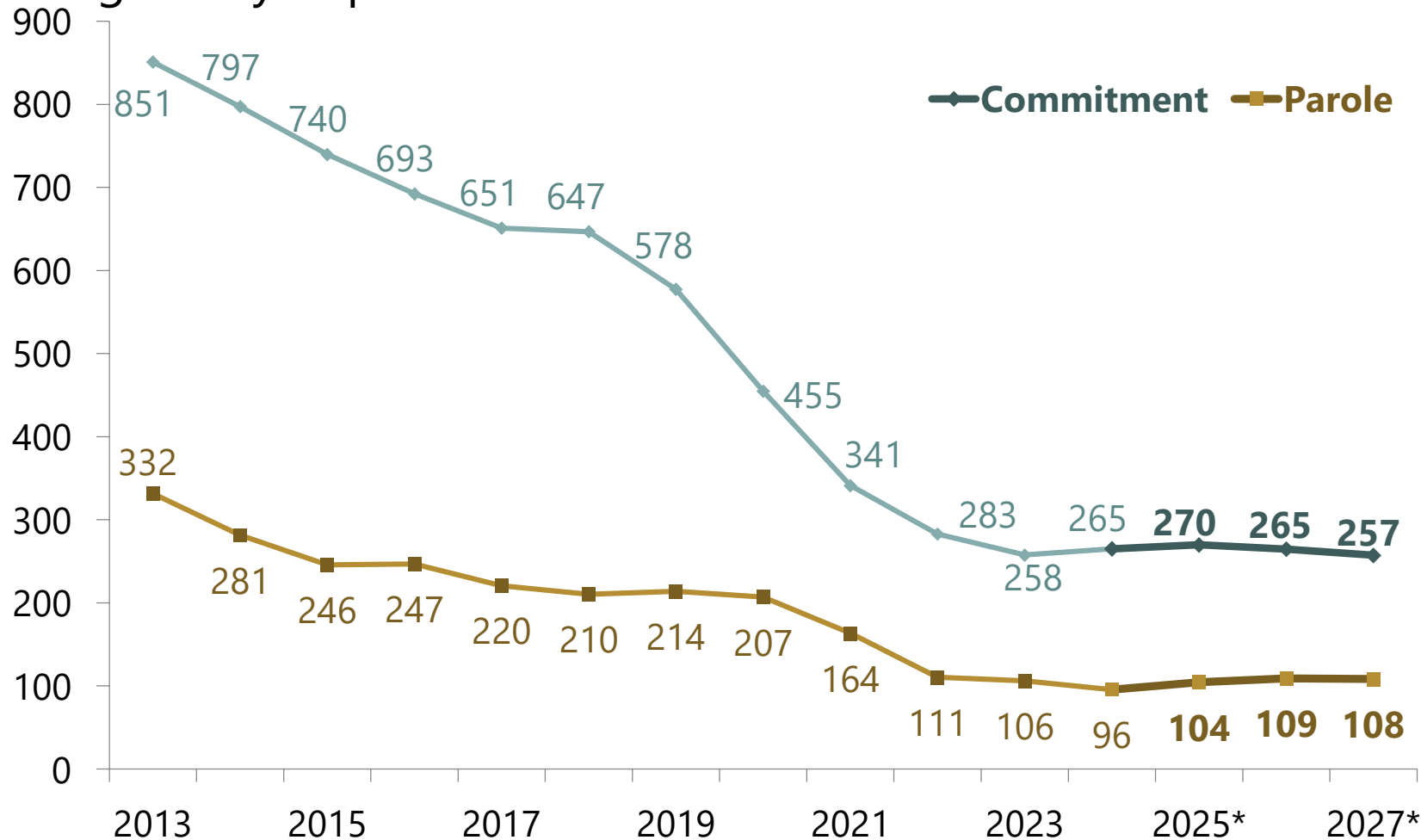
Average Daily Population



Source: CDHS Division of Youth Services and *Legislative Council Staff December 2024 forecast.

DYS commitment and parole populations expected to increase, reversing long term trends

Average Daily Populations



Source: CDHS Division of Youth Services and *Legislative Council Staff December 2024 forecast.

Questions?

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