



September 2024 | Legislative Council Staff
Economic & Revenue Forecast

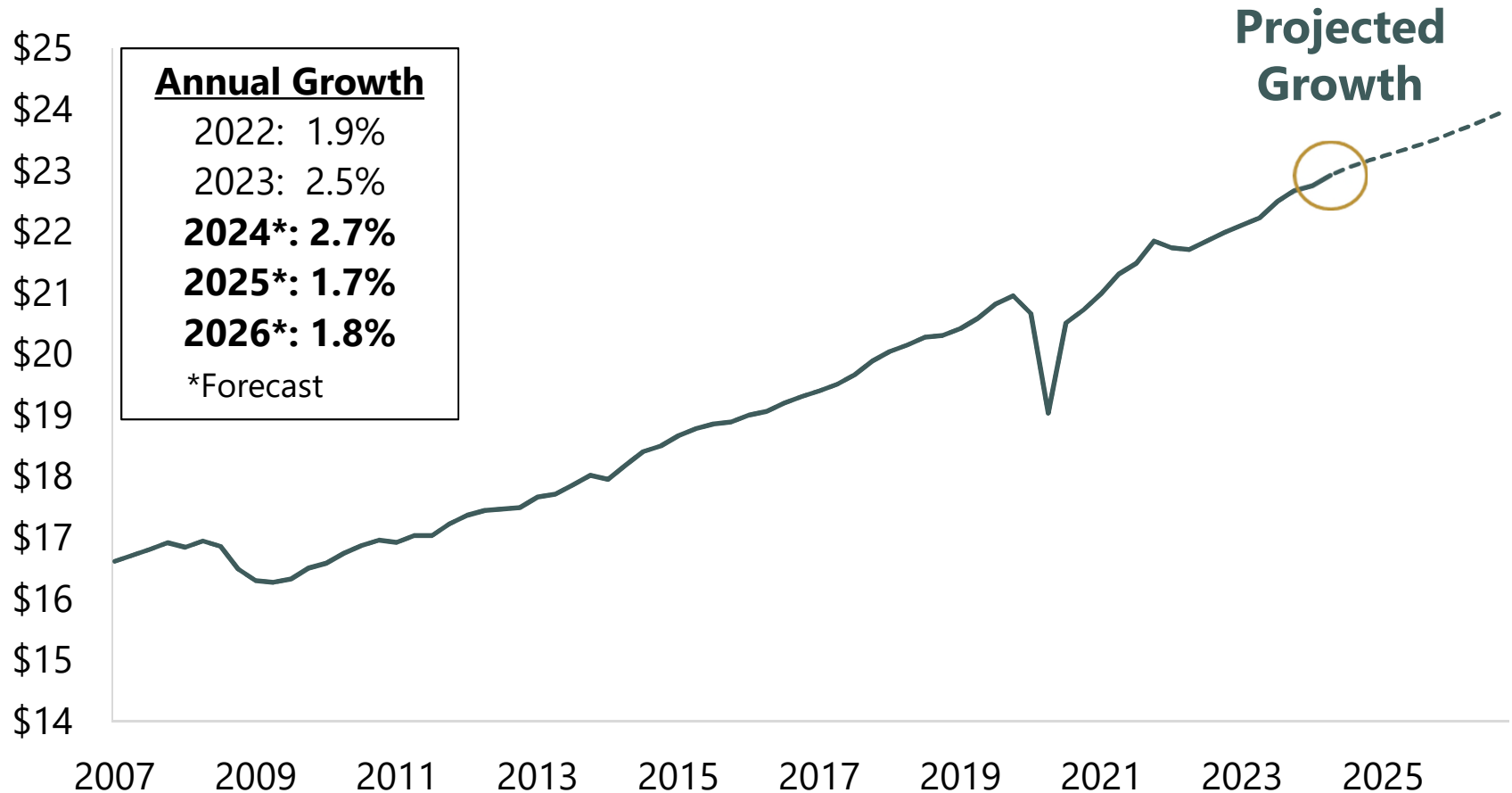
Presentation to the Joint Budget Committee
September 19, 2024

Economic Outlook



U.S. economic growth exceeding expectations in 2024, but is expected to slow

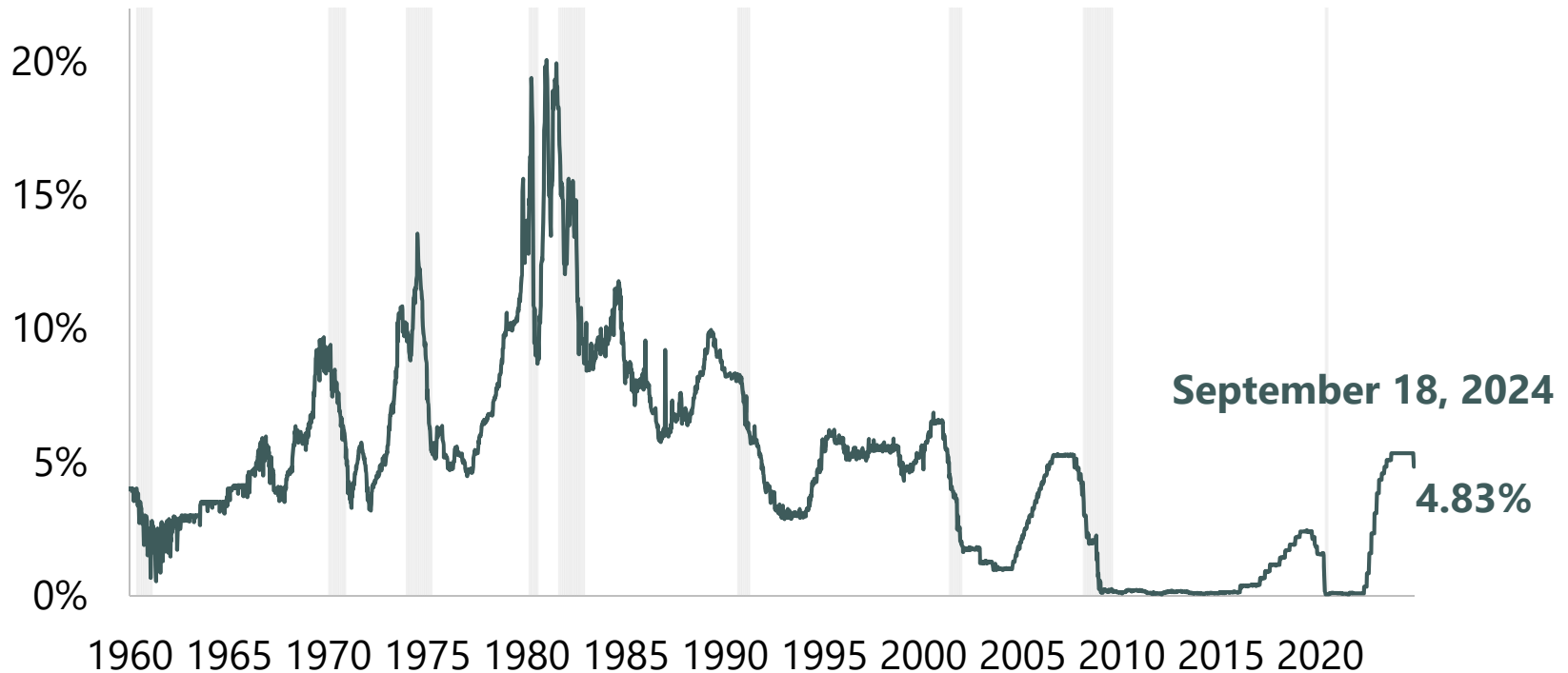
Real U.S. Gross Domestic Product
Trillions of Dollars, Adjusted for Inflation



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.

Federal Reserve begins cutting interest rates

Effective Federal Funds Rate
Percent



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

Inflation continues to fall, now lower in Denver than in the nation

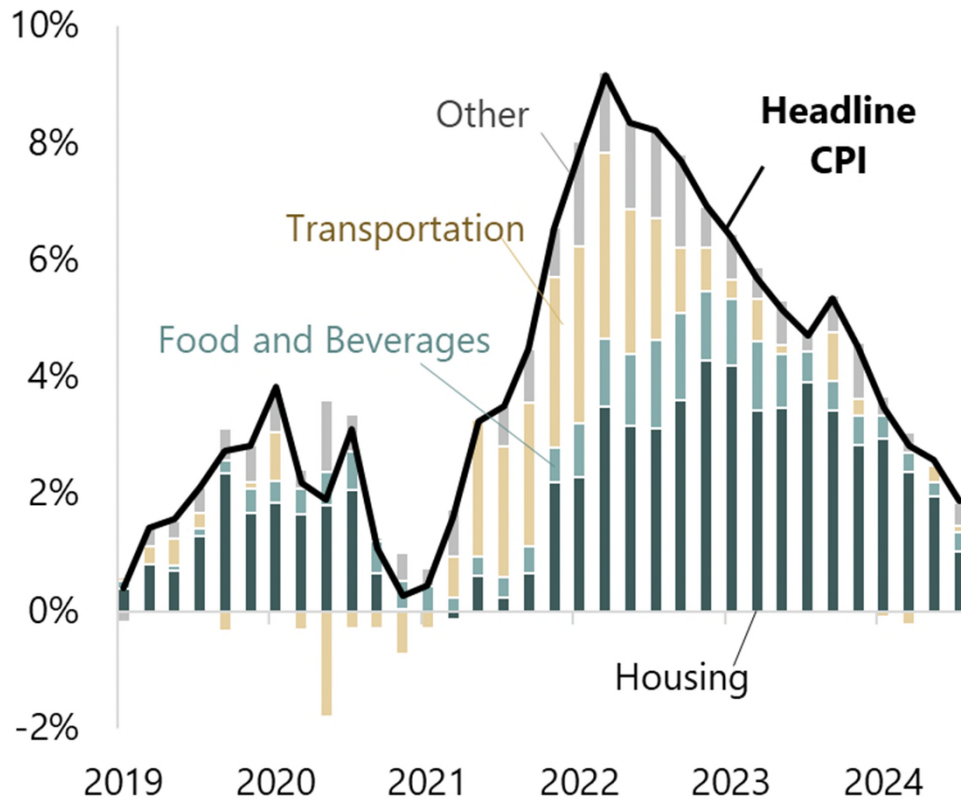
Headline CPI-U Inflation Year-over-Year Change in Prices



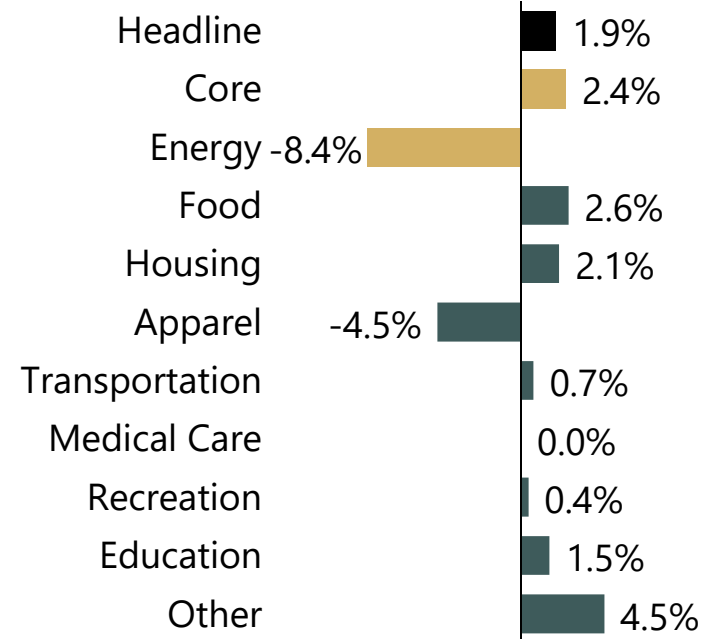
Source: U.S. Bureau of Labor Statistics. Colorado inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area. CO data are through July 2024; U.S. data are through August 2024.

Housing price inflationary pressure is waning in Colorado

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



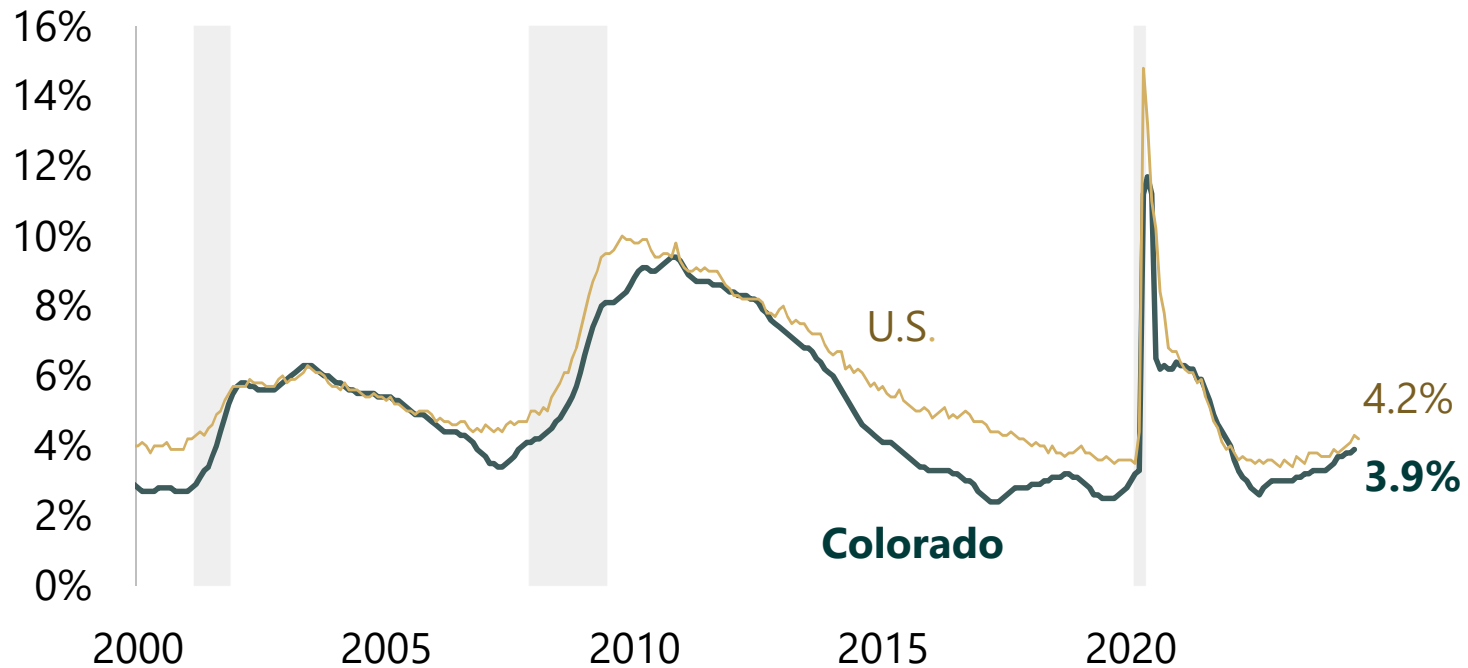
Selected Components, July 2024



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

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

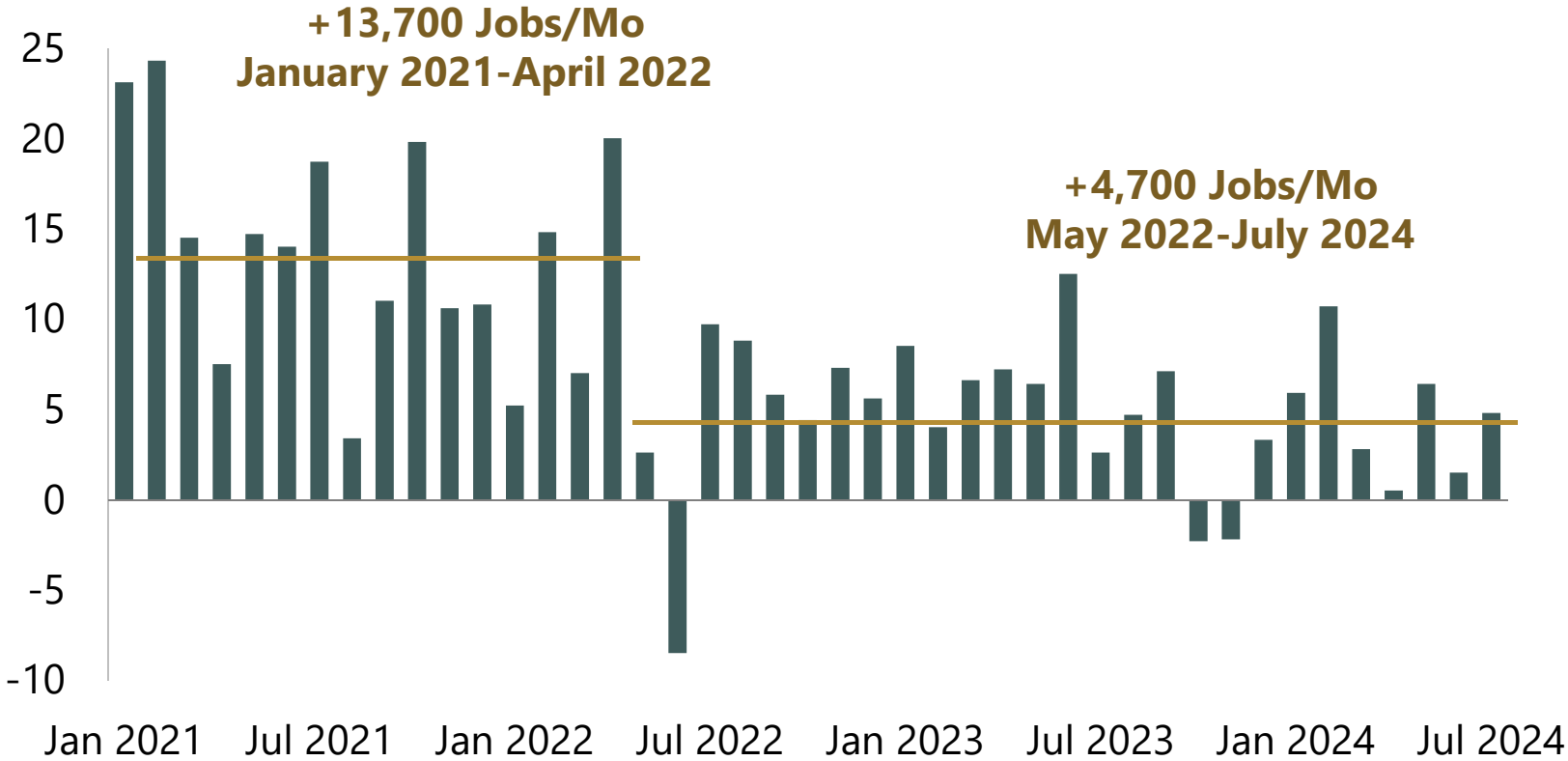
Unemployment Rates
Percent



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

Colorado's monthly employment gains slowing; larger than usual revisions expected

Monthly Nonfarm Payroll Job Growth in Colorado Thousands of Jobs

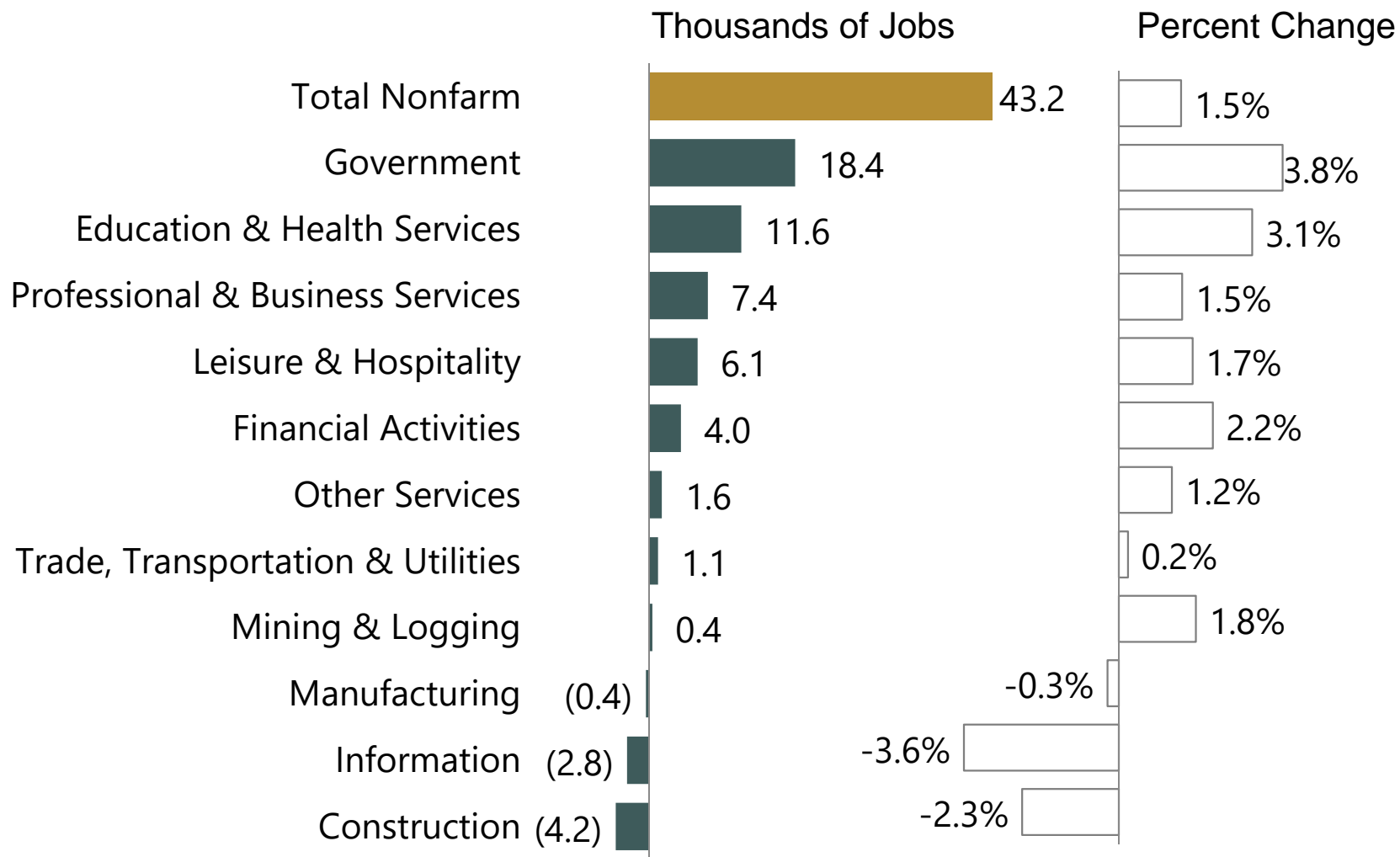


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted and through July 2024.

Colorado employment gains led by government

Colorado Job Gains and Losses by Supersector

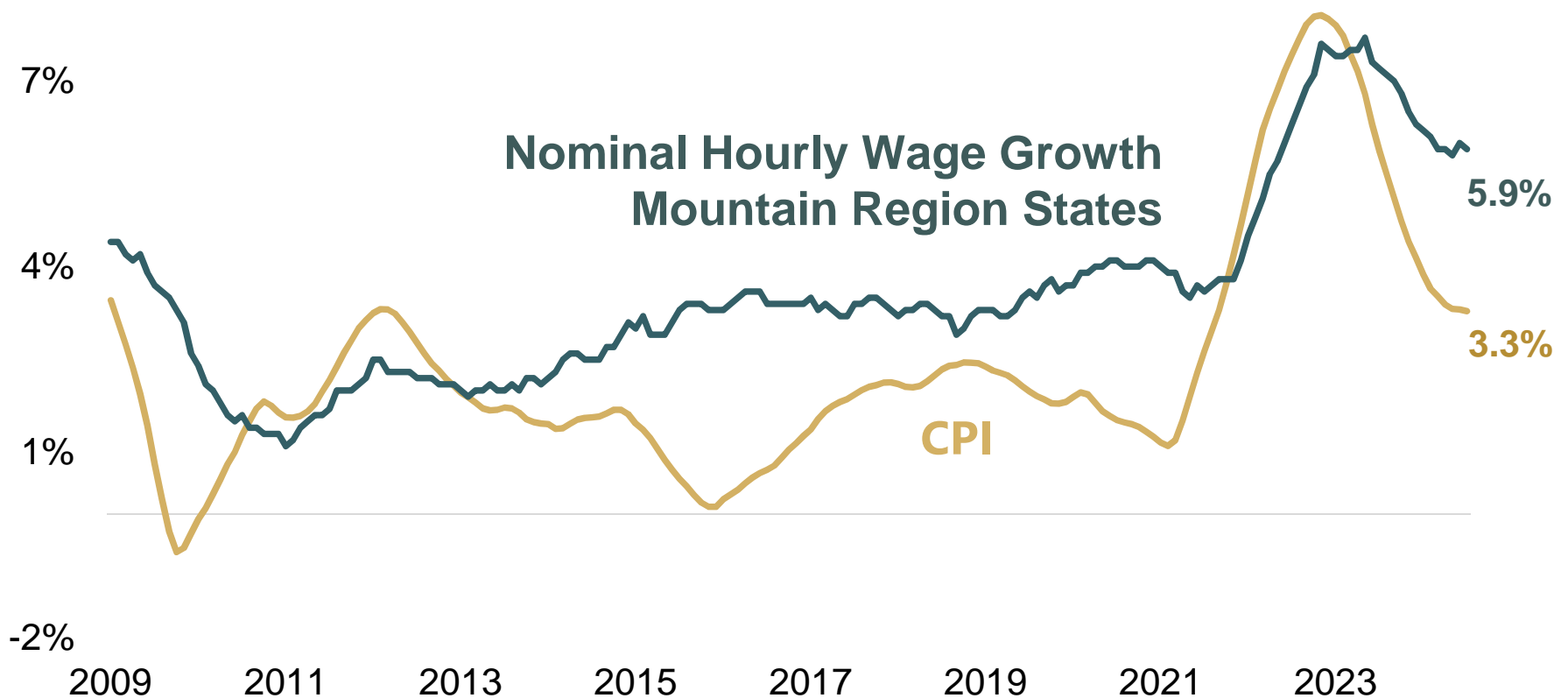
Year-over-Year Change, July 2024



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

Wage gains outpaced inflation over the past year

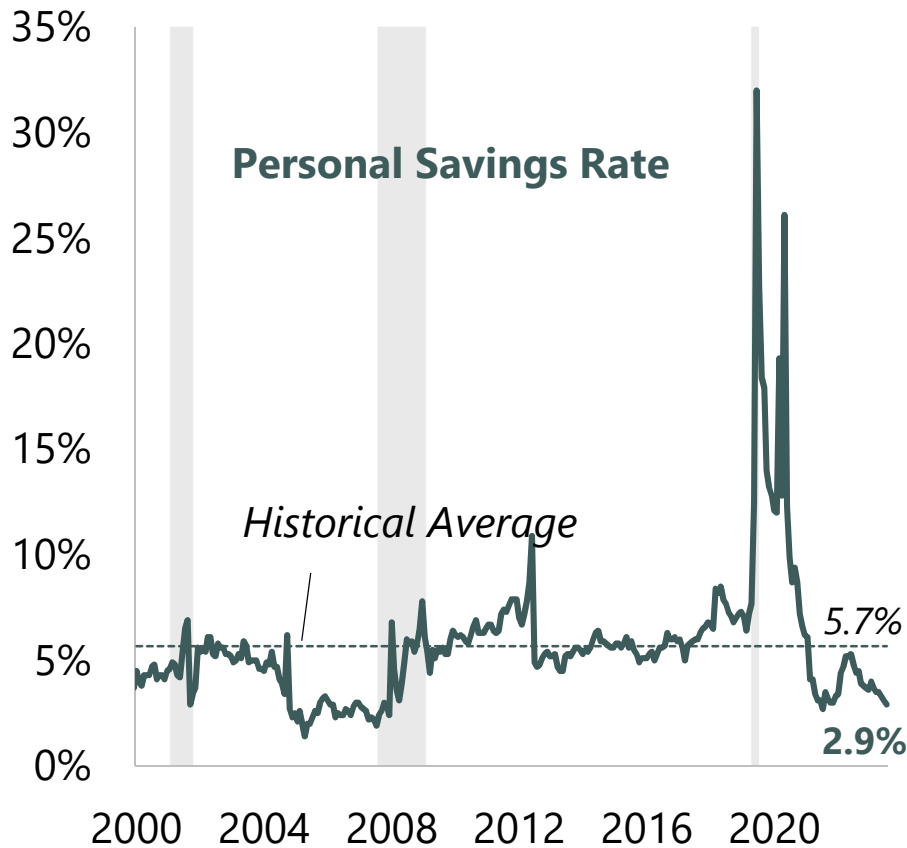
Median Nominal Hourly Wage Growth and CPI Inflation
Year-over-Year Change, 12-month moving average



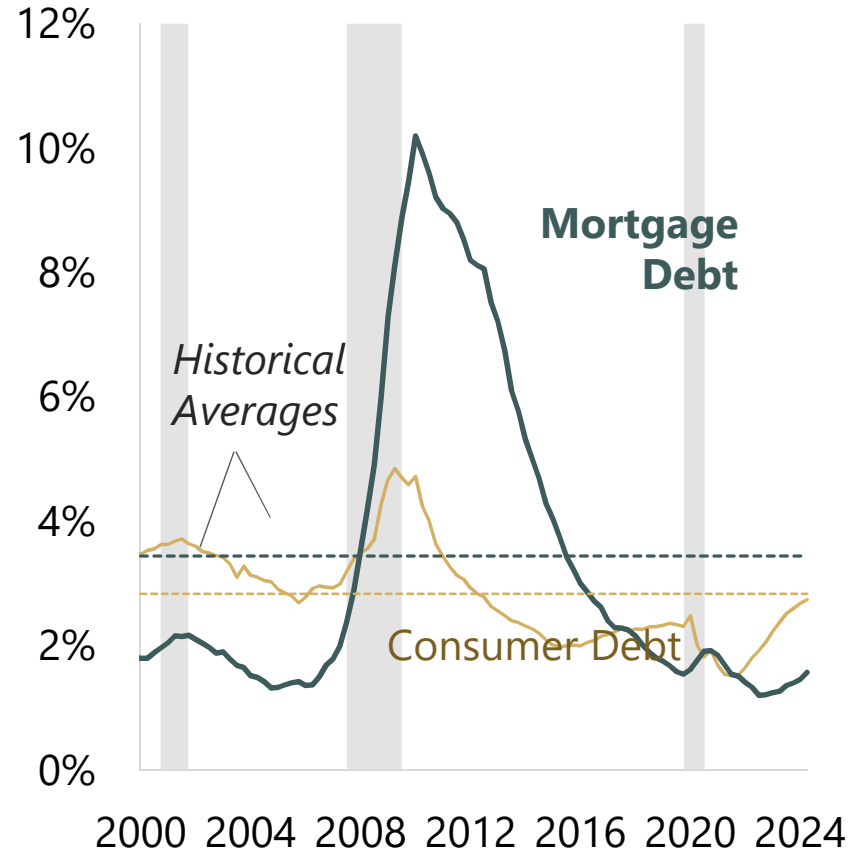
Source: Atlanta Fed Wage Growth Tracker and Bureau of Labor Statistics. Data are through July 2024.

Household savings below the historical average, delinquencies rising

Personal Savings Rate Percent



Delinquency Rates Percent of Loans



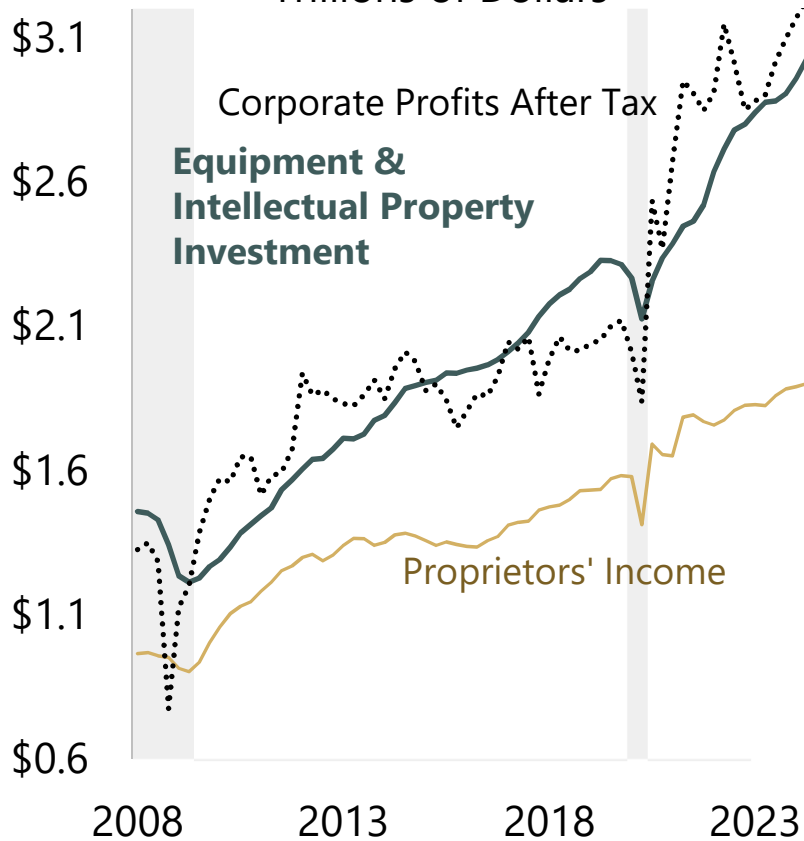
Source: U.S. Bureau of Economic Analysis and Federal Reserve Board of Governors.

*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 July 2024 (left) and 2024Q2 (right).

Corporate Profits strong, but manufacturing activity still sluggish

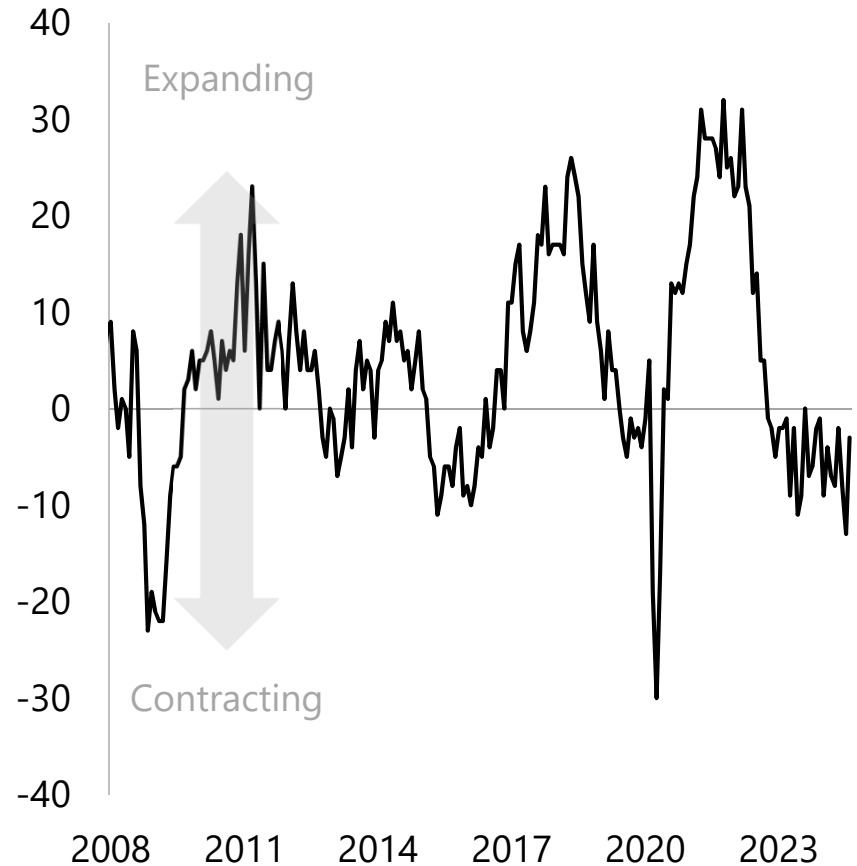
Business Investment, Income and Profits

Trillions of Dollars



Source: U.S. Bureau of Economic Analysis. Data are not adjusted for inflation. Data are through 2024Q2.

Tenth District Manufacturing Composite Index

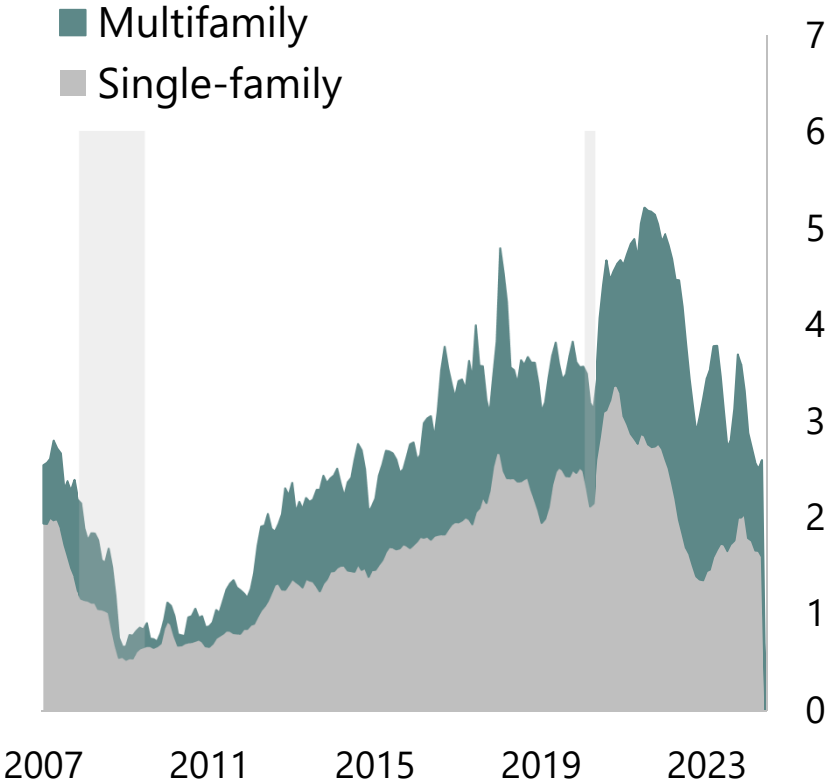
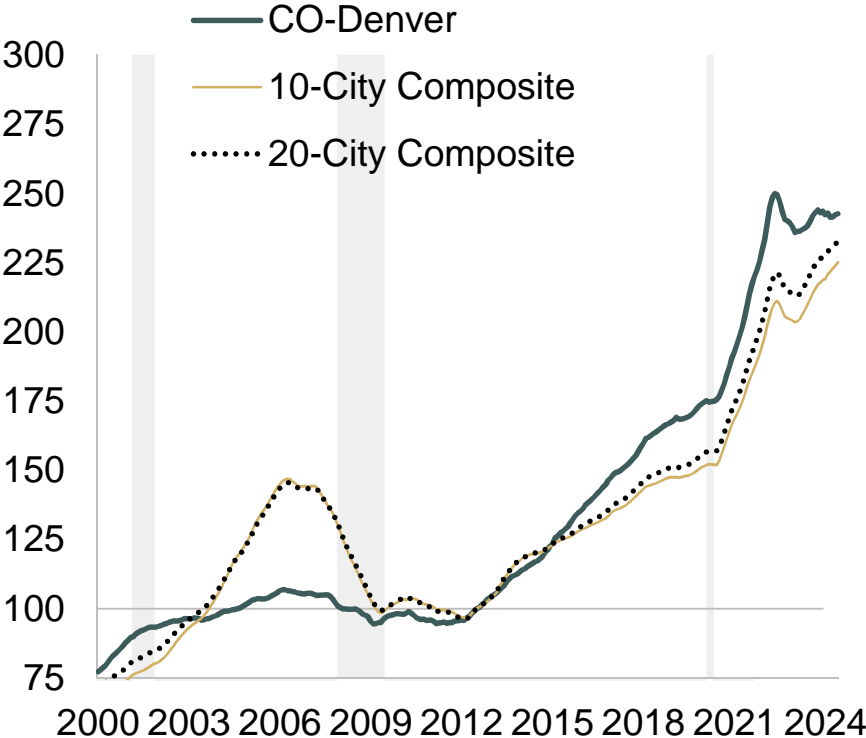


Source: Federal Reserve Bank of Kansas City. Data are seasonally adjusted and through August 2024.

Denver home prices easing in 2024, down 3 percent , compared to May 2022; homebuilding activity continues to decline

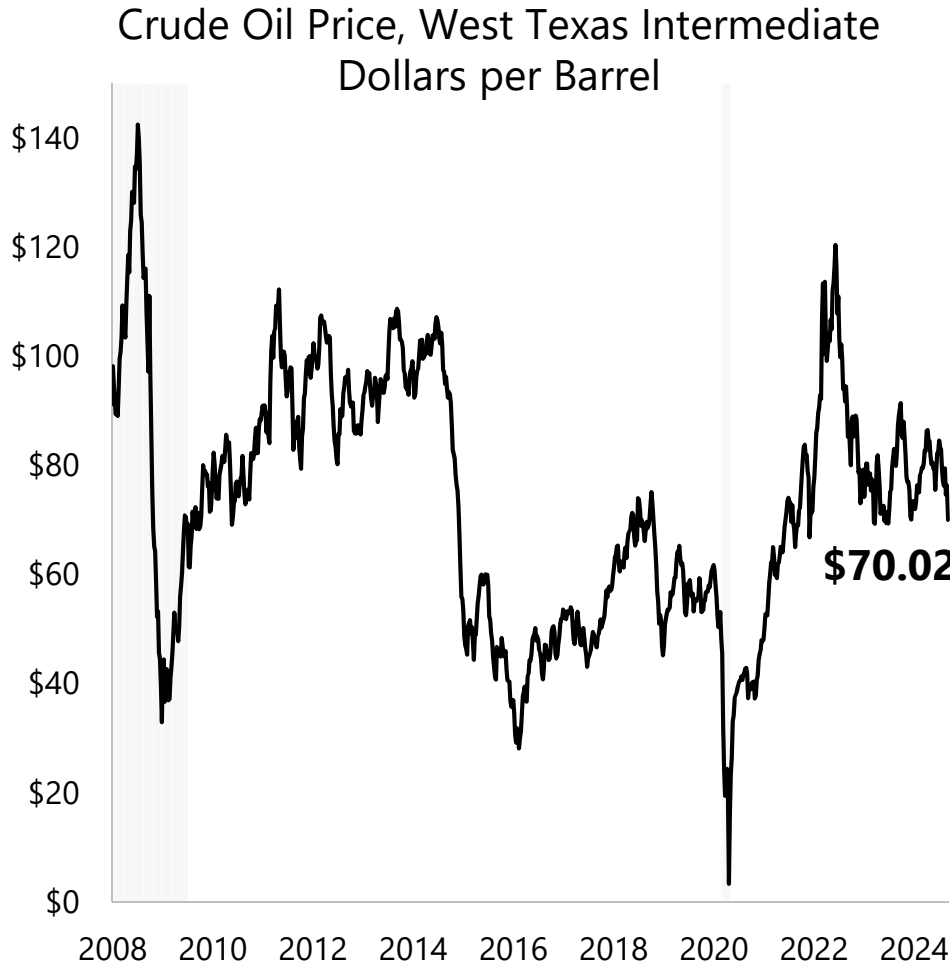
Case-Shiller Home Price Indices
Index 100=July 2012

Colorado monthly building permits issued
Thousands of Units

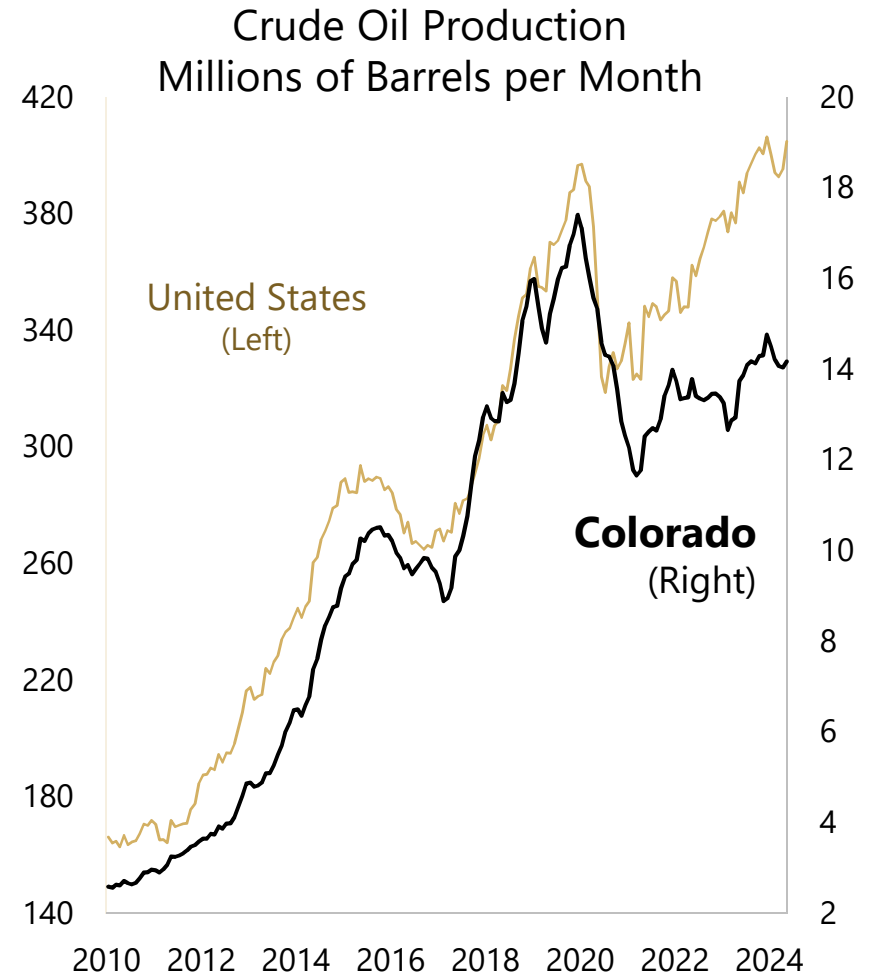


Source: S&P Dow Jones Indices LLC. Data are seasonally adjusted and are through June 2024 (left). U.S. Census Bureau. Data shown as three-month moving averages. Data are seasonally adjusted and through July 2024 (right).

Colorado oil production expected to decline with downgraded oil price outlook



Source: U.S. Energy Information Administration. Weekly average prices. Data are not seasonally adjusted and are through the week of September 6, 2024.



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

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

- **Downside Risks:**

- Deteriorating household finances hurt consumption
- Election-related uncertainty weighs further on consumer and business confidence
- Deteriorating labor market conditions
- High borrowing costs continue to discourage investment
- Poor global economy impacts U.S. growth

- **Upside Risks:**

- More aggressive monetary policy easing
- Faster labor market response to monetary policy easing
- Resolution to international conflicts

General Fund Budget Outlook

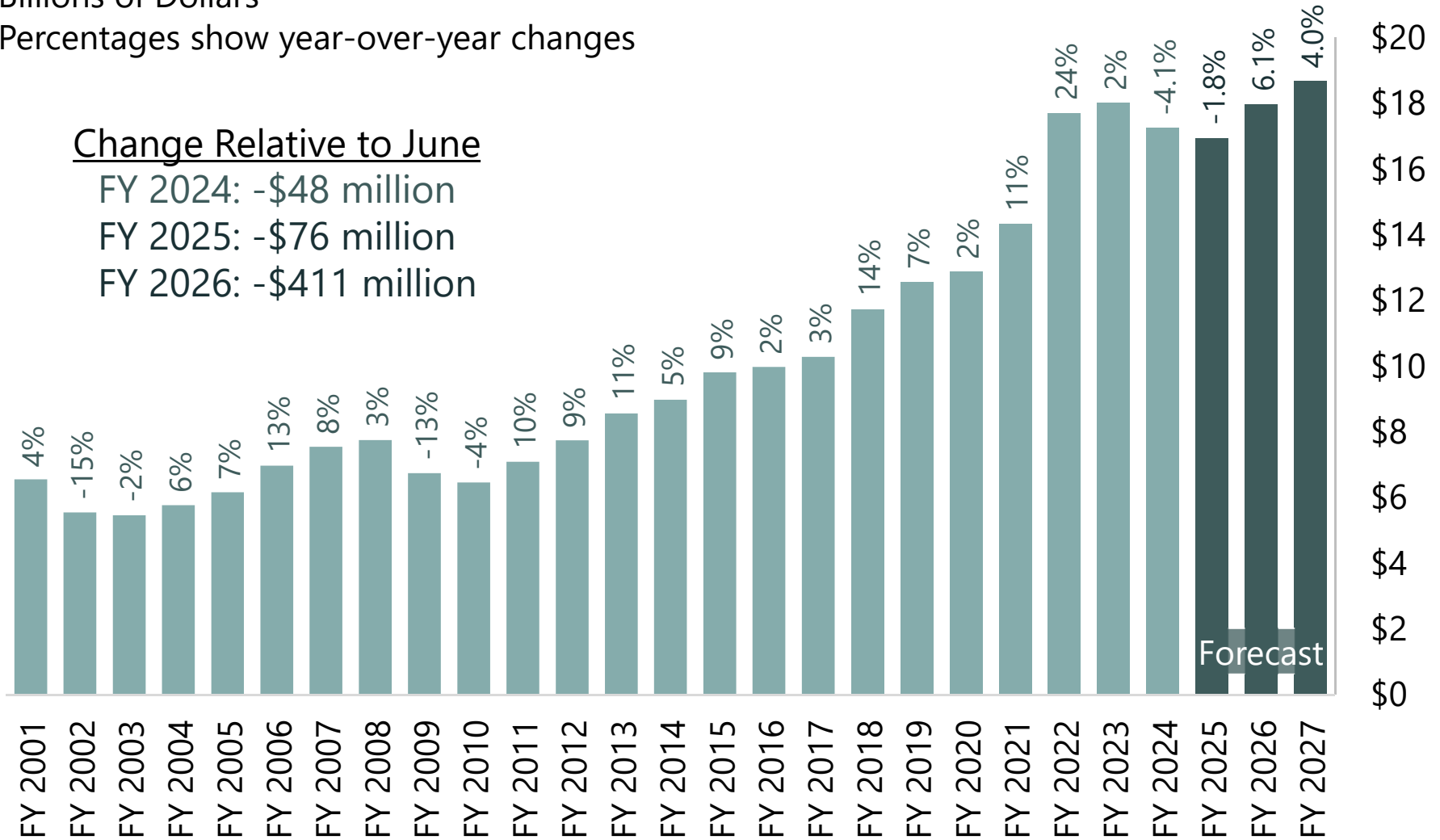


General Fund Forecast

Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes



Why did the forecast change since June?

FY 2023-24 revenue was slightly lower than expected in June

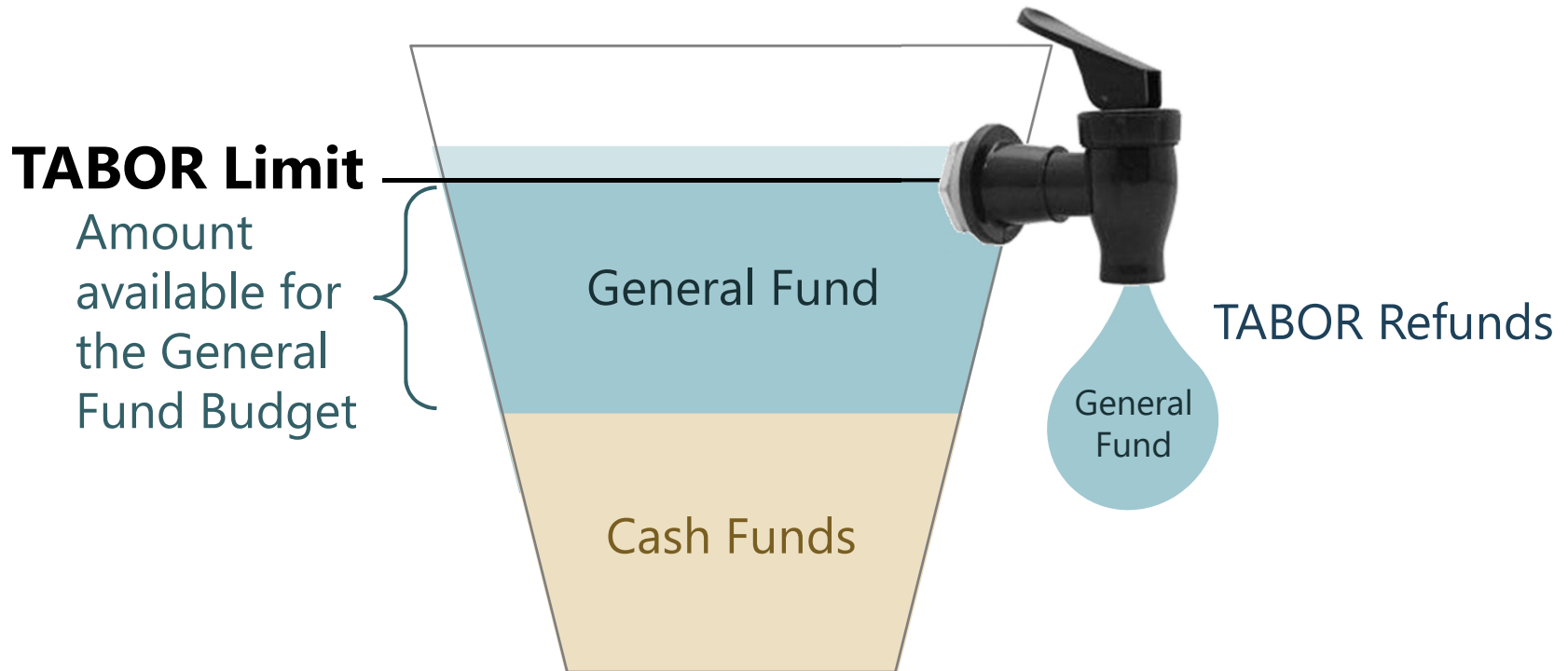
- Downward revision of \$48 million (-0.3%) on net
- Investment income and insurance premium taxes came in lower
- Corporate income collections came in higher than expected

Economic outlook also contributed to forecast downgrade

- Lower inflation and constrained household finances impact sales taxes
- Slowing labor markets impact income taxes

TABOR Refunds are paid from the General Fund

In a TABOR surplus situation...



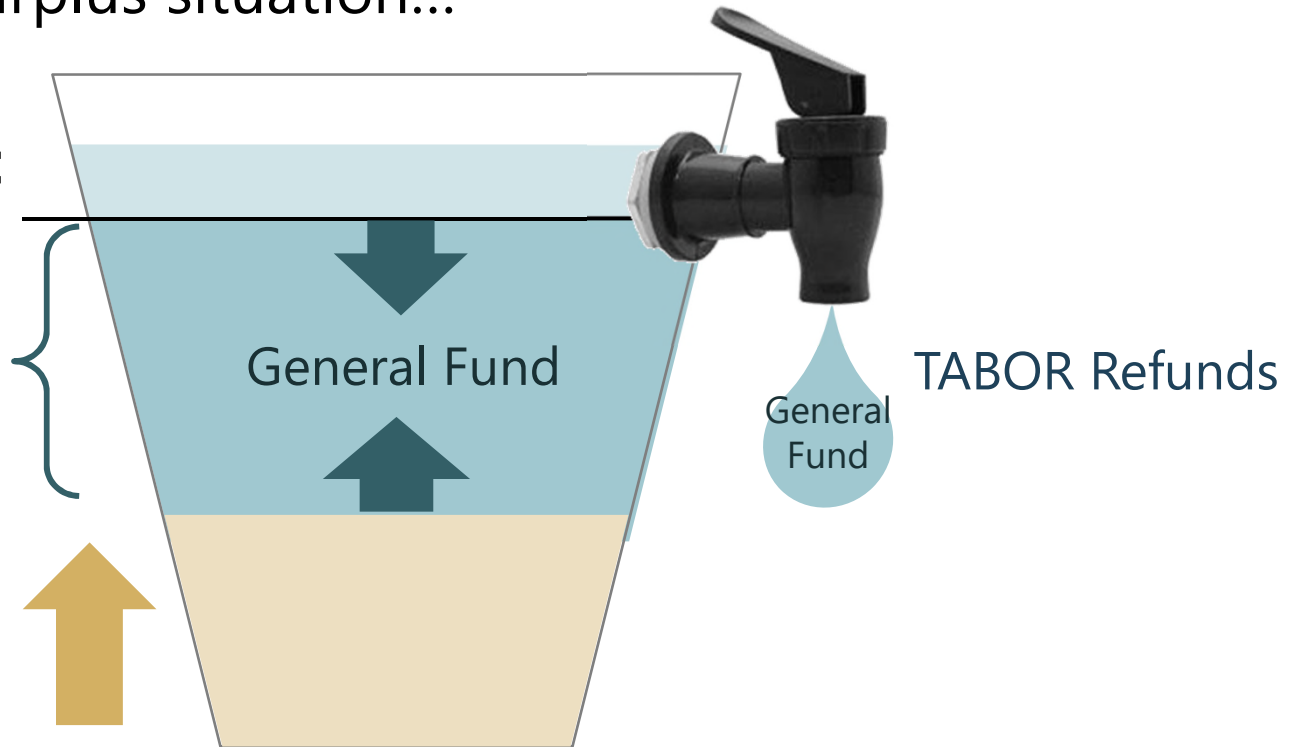
Cash Fund dollars in = General Fund dollars out

Cash Fund Revenue Impacts General Fund Budget Space in a TABOR Surplus Environment

In a TABOR surplus situation...

TABOR Limit

Amount available for the General Fund Budget



Less Cash Fund Revenue = More General Fund Budget Space*

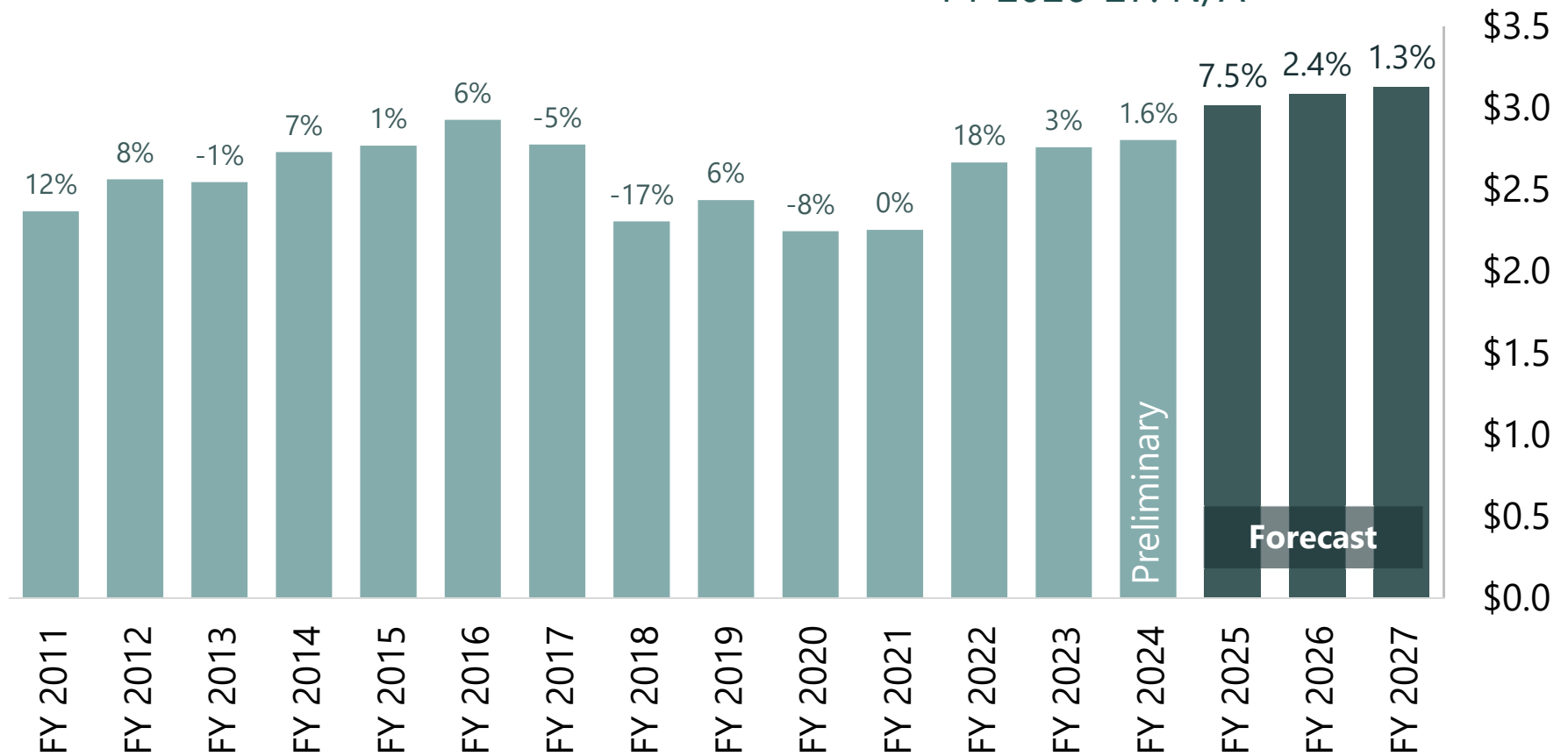
**Provided that General Fund appropriations are not needed to offset lost cash fund revenue.*

Cash Fund Forecast Revised Up

Cash Fund Revenue Subject to TABOR
 Billions of Dollars
 Percentages show year-over-year percent changes

Change Relative to June Forecast

FY 2023-24: +\$32 million
 FY 2024-25: +\$109 million
 FY 2025-26: +\$107 million
 FY 2026-27: N/A

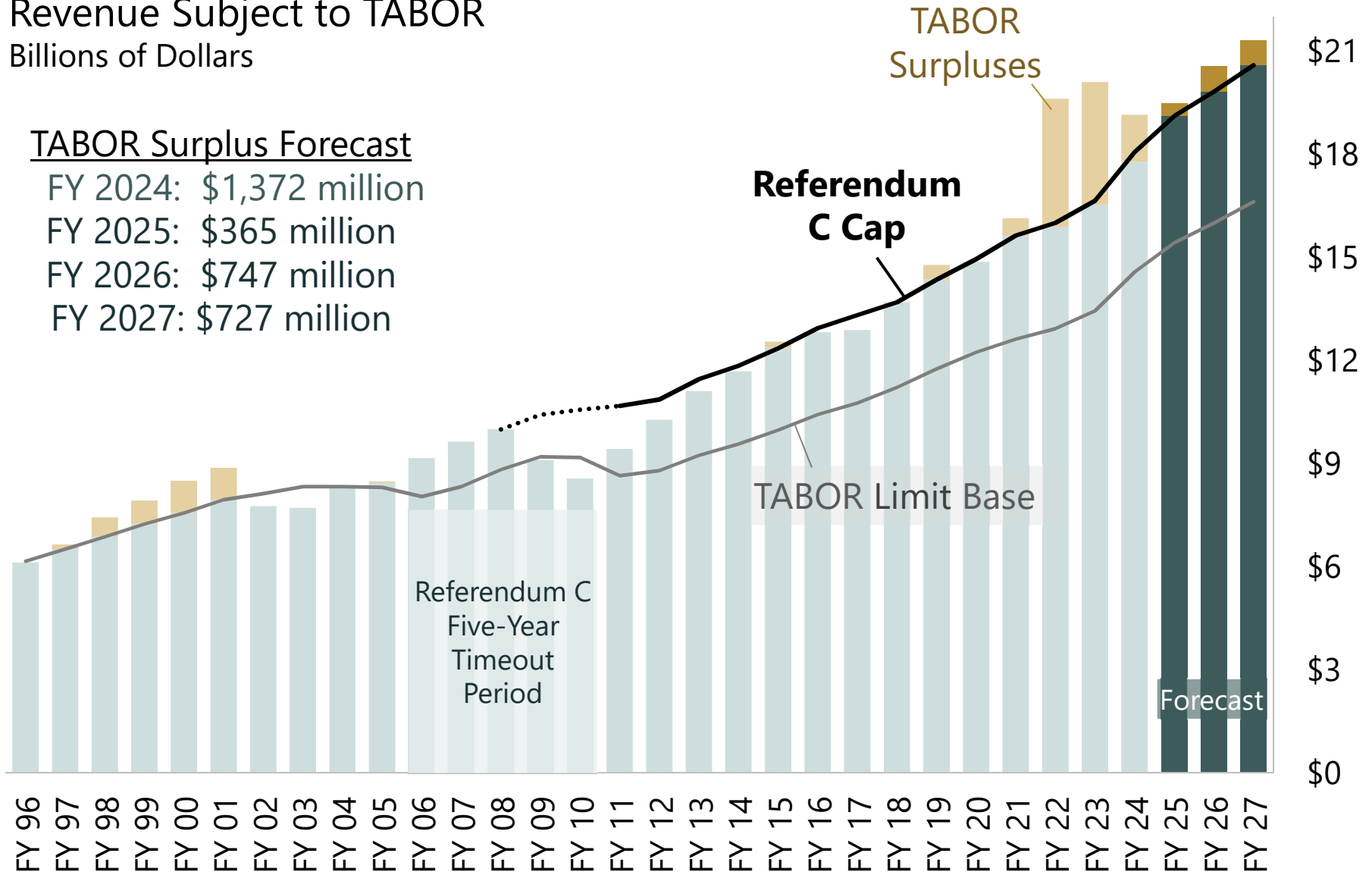


TABOR Surpluses Are Expected to Decline

Revenue Subject to TABOR
Billions of Dollars

TABOR Surplus Forecast

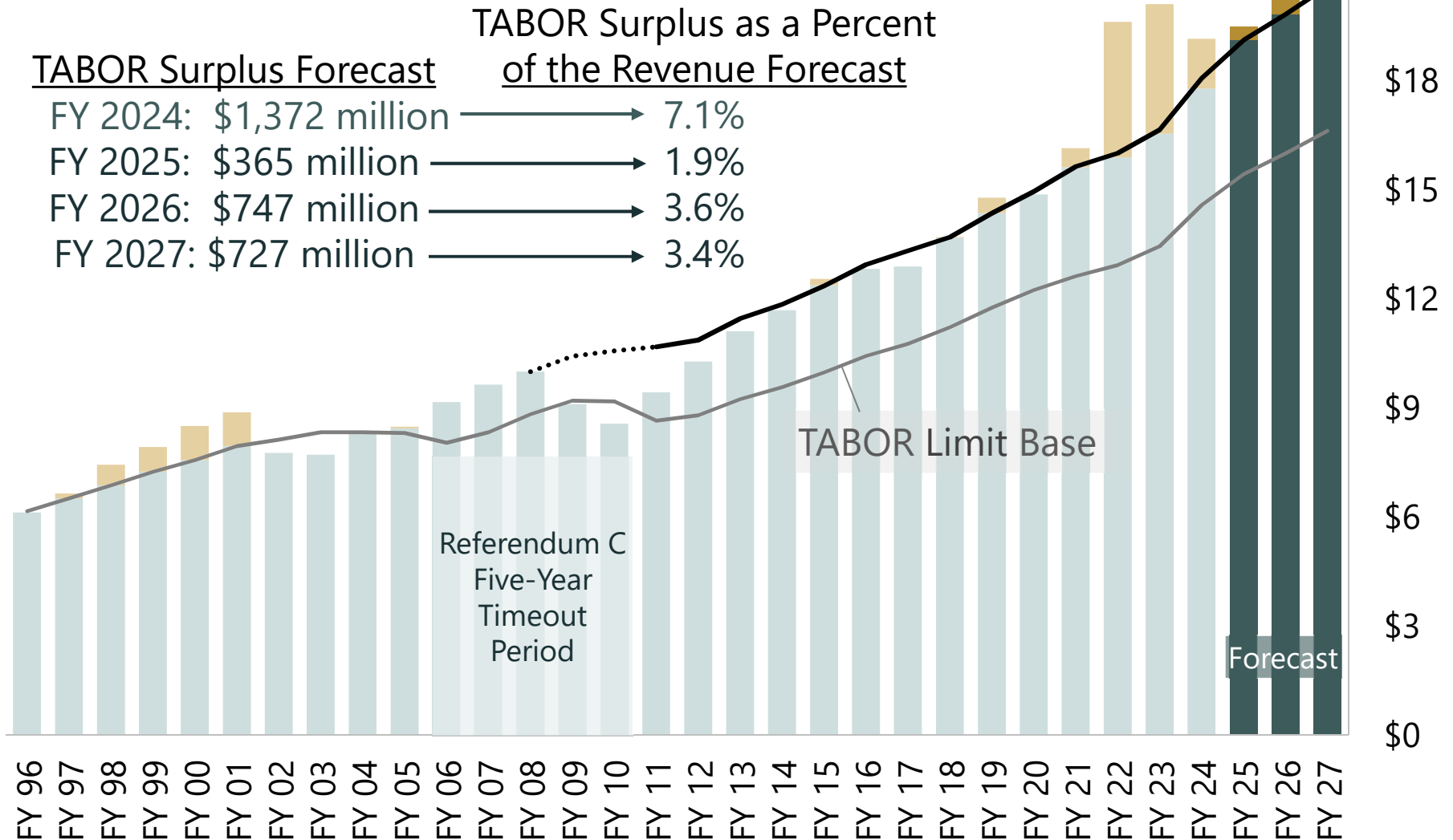
FY 2024: \$1,372 million
 FY 2025: \$365 million
 FY 2026: \$747 million
 FY 2027: \$727 million



TABOR Surpluses are Expected to Decline

Revenue Subject to TABOR

Billions of Dollars

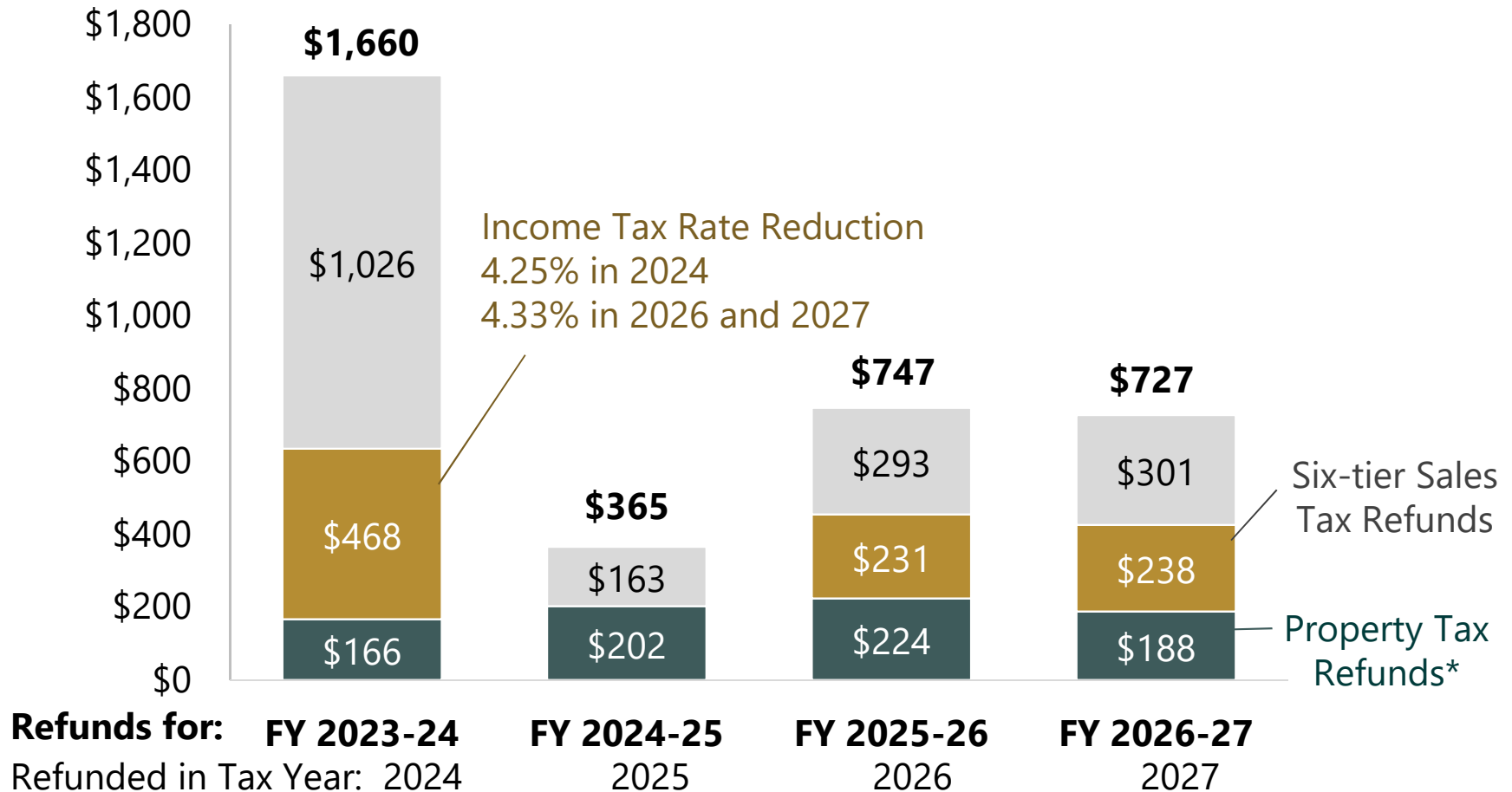


Source: Colorado Office of the State Controller and Legislative Council Staff September 2024 forecast.

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

Source: Legislative Council Staff September 2024 forecast.

Other TABOR considerations

Prop FF revenue is expected to exceed the 2022 Blue Book estimate in FY 2023-24

- Blue Book estimated \$100.7M, now expected to be \$127.0M
- This will trigger a refund requirement if voters do not approve a measure to retain the excess

Last Year | FY 2023-24 General Fund Reserve

June
Forecast

Reserve %: 13.5%
Excess Reserve: -\$164 million

Changes since the
June forecast:

Net **+\$1.2 billion** increase in GF reserve relative to requirement

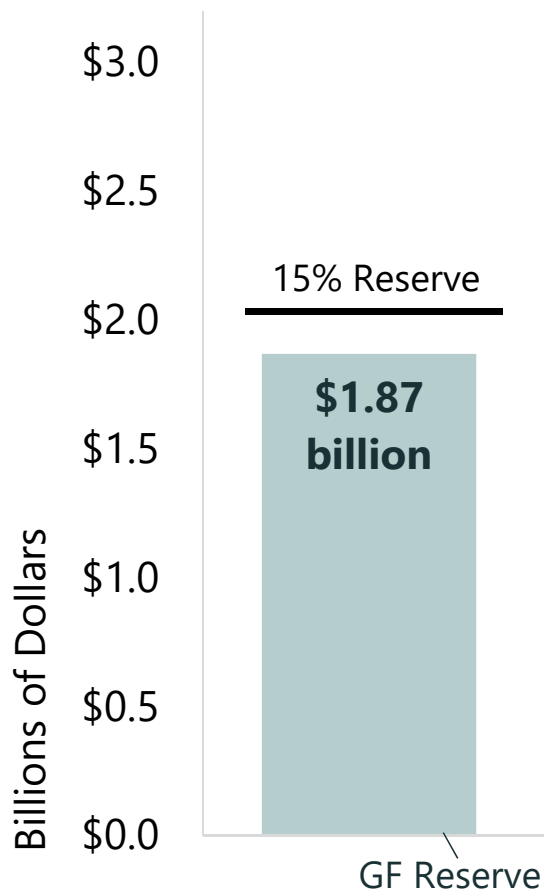
What Happened?

HB 1466 transfer shifted to FY25 **+\$1.4 billion**

HCPF overexpenditure **-\$154 million**

Increased **reserve requirement** **-\$23 million**

Increased pressure from **TABOR** (on net) **-\$8 million**



Current Year | FY 2024-25 General Fund Reserve

	June Forecast	September Forecast
Reserve %:	14.5%	12.7%
Excess Reserve:	-\$86 million	-\$371 million

Changes since the June forecast:

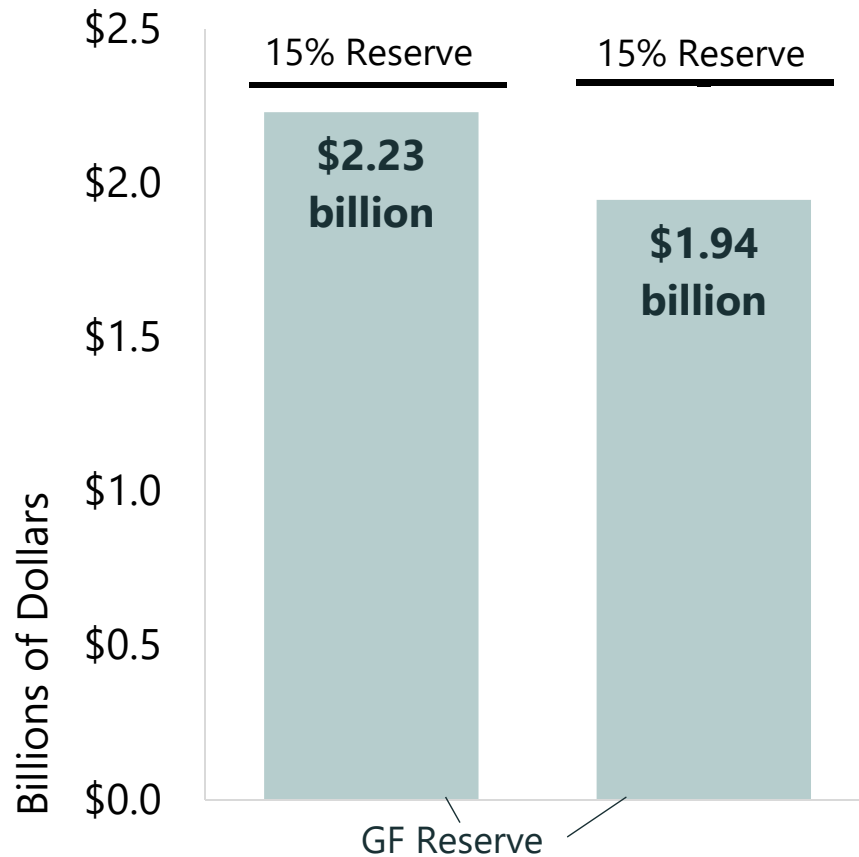
Net **\$285 million decrease** in GF reserve relative to requirement

What Happened?

Reduced **beginning balance** **-\$166 million**

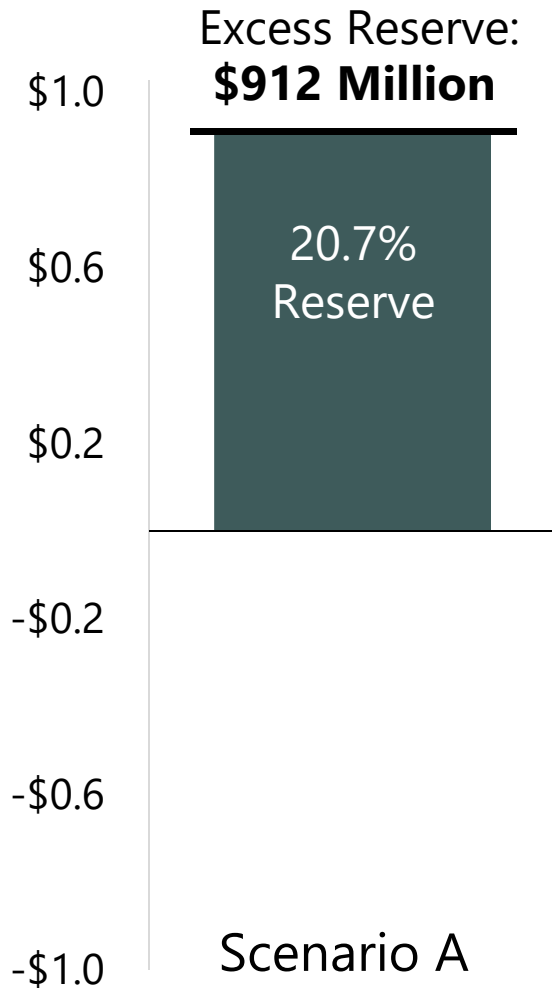
Increased pressure from **TABOR** (mostly due to increased CF) **-\$113 million**

Increased **rebates and expenditures** **-\$6 million**



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

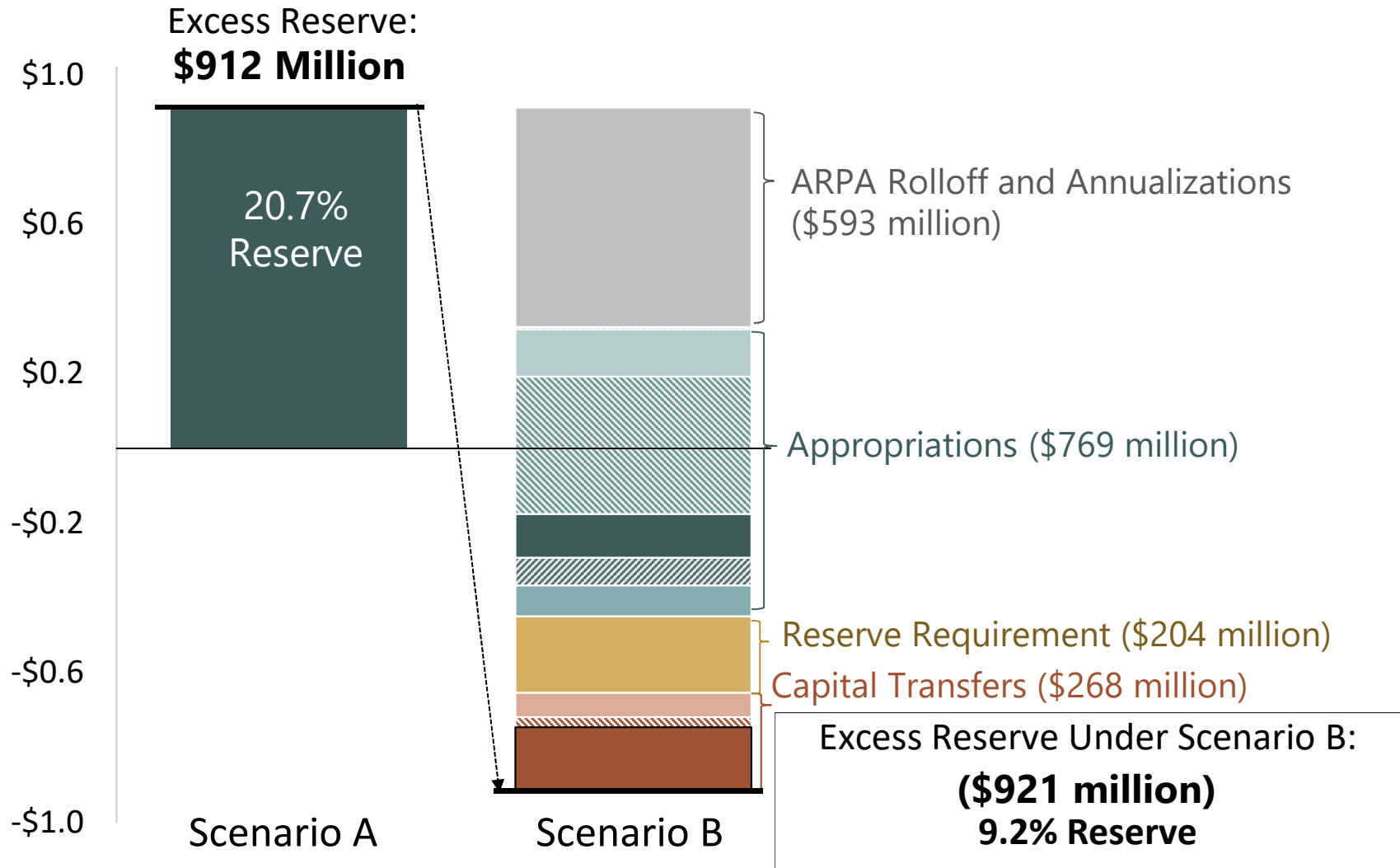
General Fund Reserve Above/Below the 15% Reserve Requirement
Dollars in Billions



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

General Fund Reserve Above/Below the 15% Reserve Requirement

Dollars in Billions



Forecast Takeaways

Reduced expectations for the TABOR surplus make it more likely for revenue to fall below the Ref C cap

General Fund projected to end FY 2024-25 below the reserve requirement

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

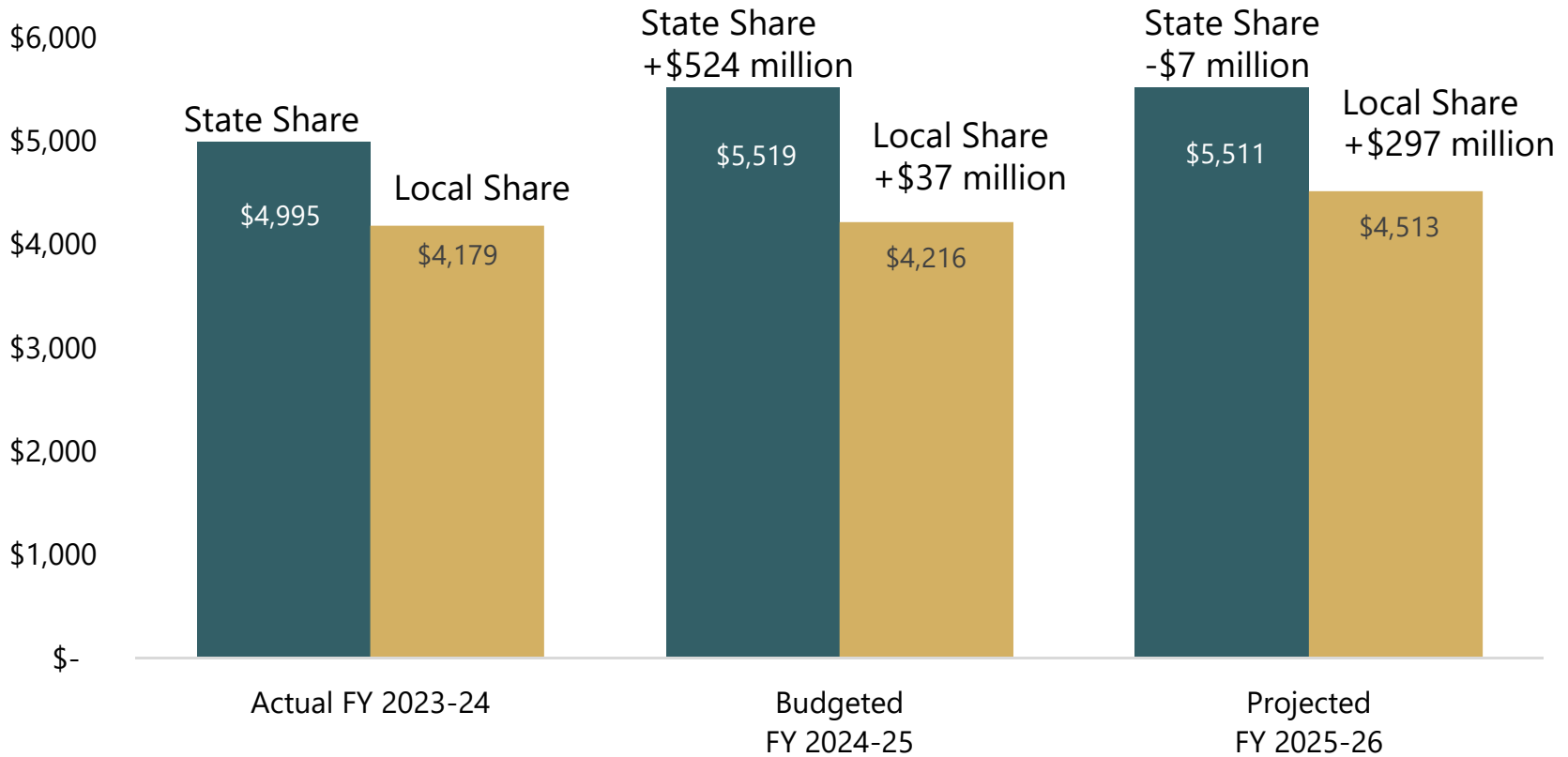
School Finance Update



School Finance Update

Total Program: +\$561 million

Total Program: +\$290 million



New School Finance Formula Implementation

Increases total program by \$95.0 million in FY 2025-26, increasing by about \$571 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.



State Education Fund Projections

- If the General Fund contribution to school finance is **held constant**, the SEF balance is expected to be negative in FY 2026-27.
- If the General Fund contribution to school finance **increases by 4.2%** (historical growth), the SEF balance is expected to be negative in FY 2027-28.
- If the General Fund contribution to school finance **increases by 5.3%**, the SEF is expected to maintain a positive balance of at least \$100.0 million at the end of the forecast period.
- All projections are over a five year time frame.

