



May 2020 | Legislative Council Staff
Economic & Revenue Forecast Update

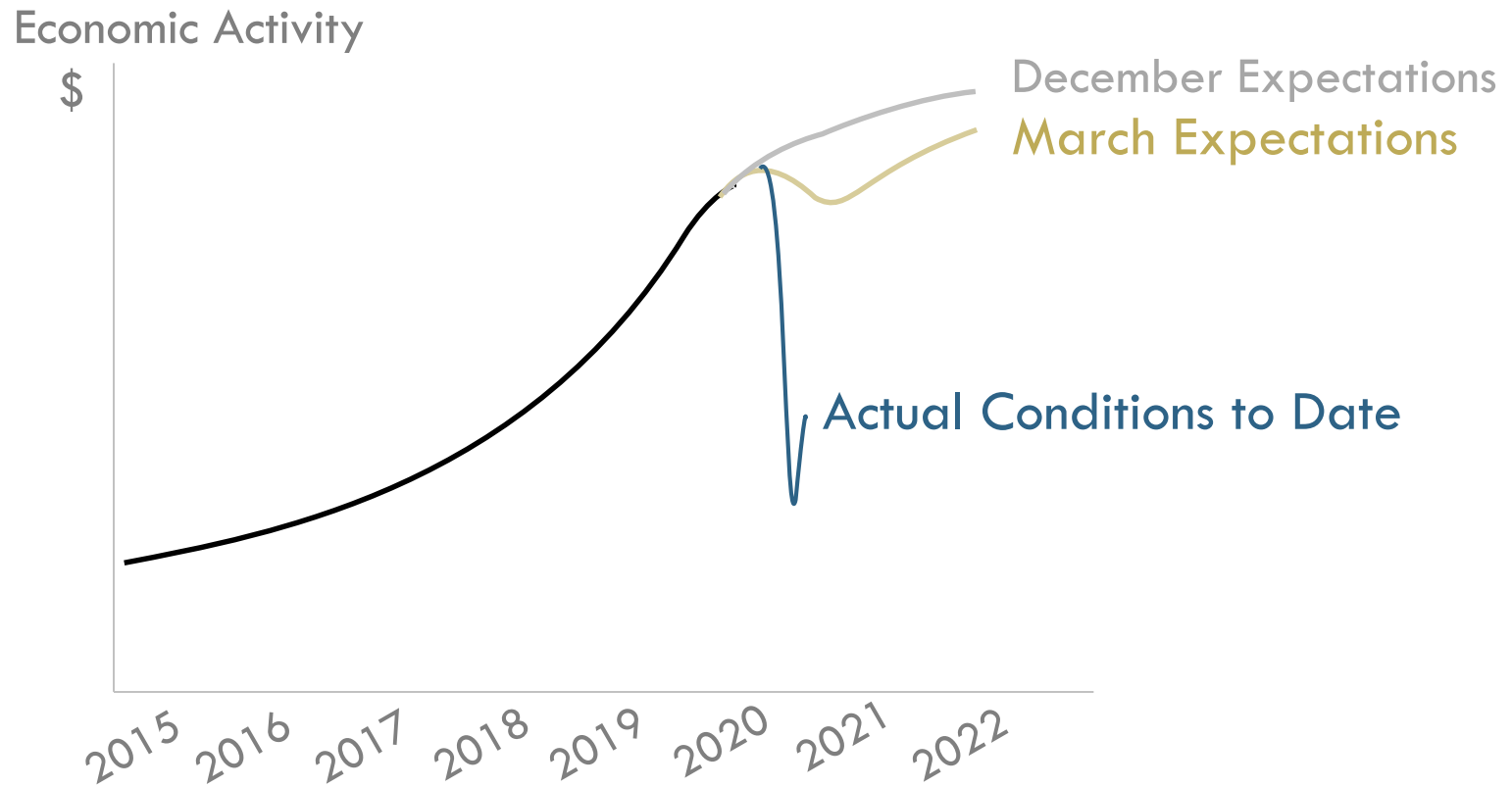
Presentation to the Joint Budget Committee

May 12, 2020

Economic Outlook



The events that have transpired over the past two month were unimaginable, even in March

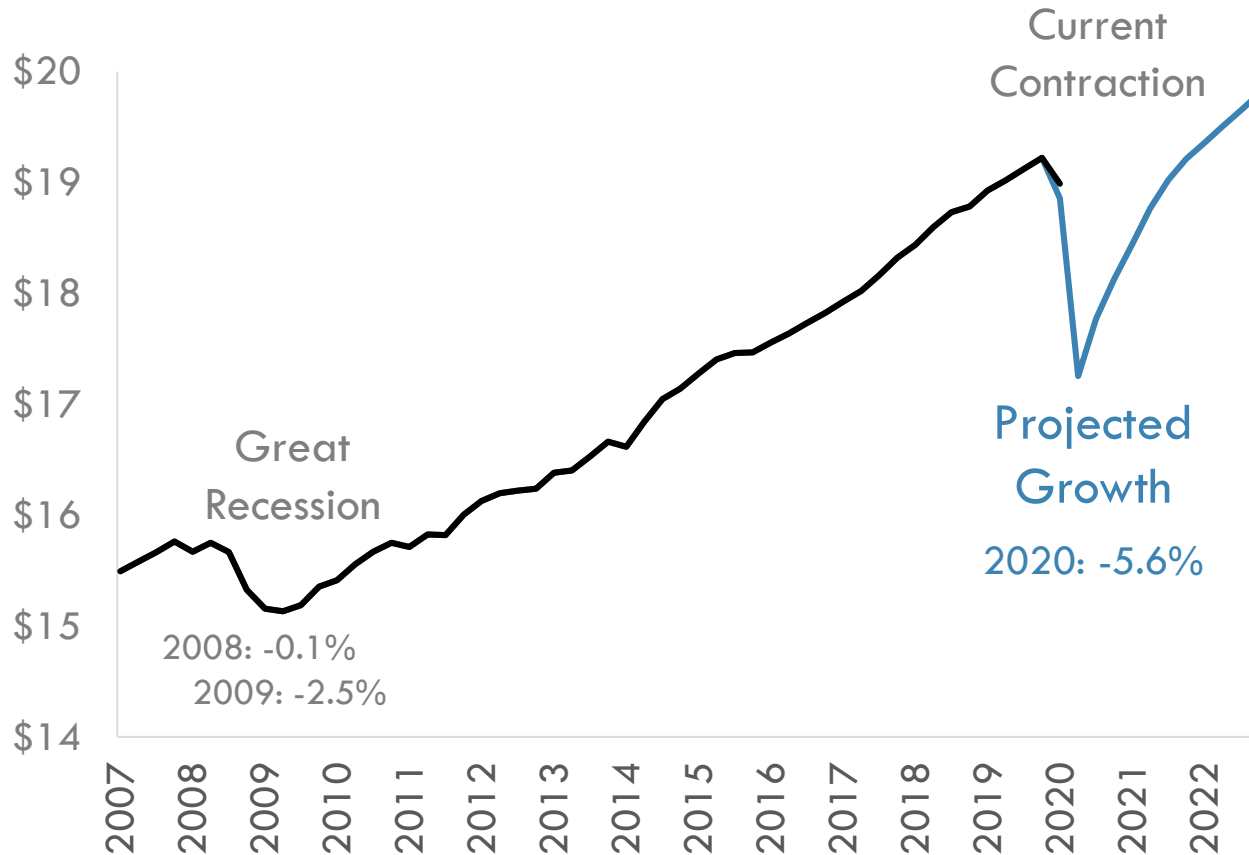


This figure is for illustrative purposes.

Shape of Recovery

Real U.S. Gross Domestic Product

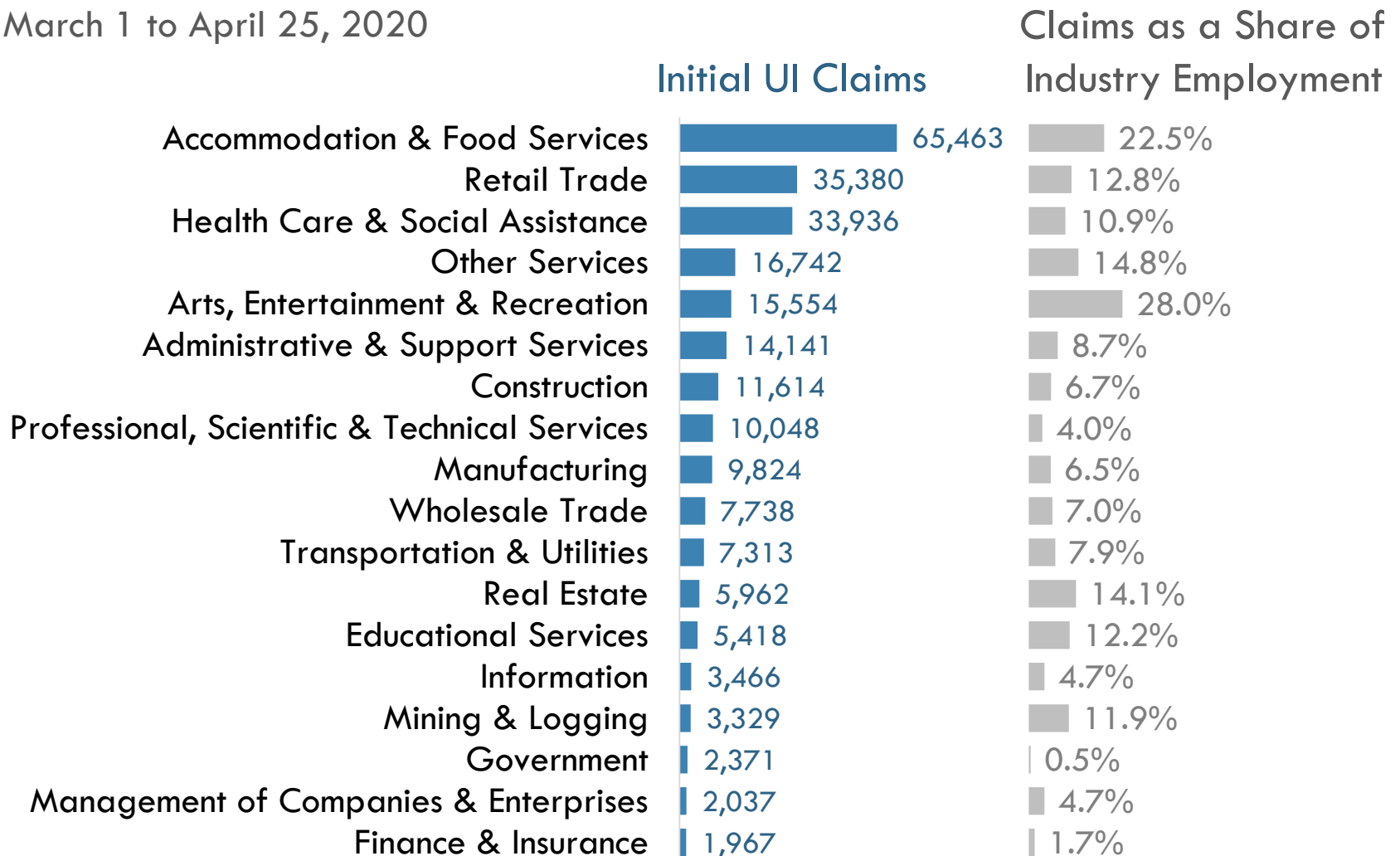
Dollars in Trillions



Source: U.S. Bureau of Economic Analysis and Legislative Council Staff projections, including projected 2020Q1 revisions. Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

No industry has been left untouched. Many will regain jobs with reopening, but additional waves of layoffs are expected

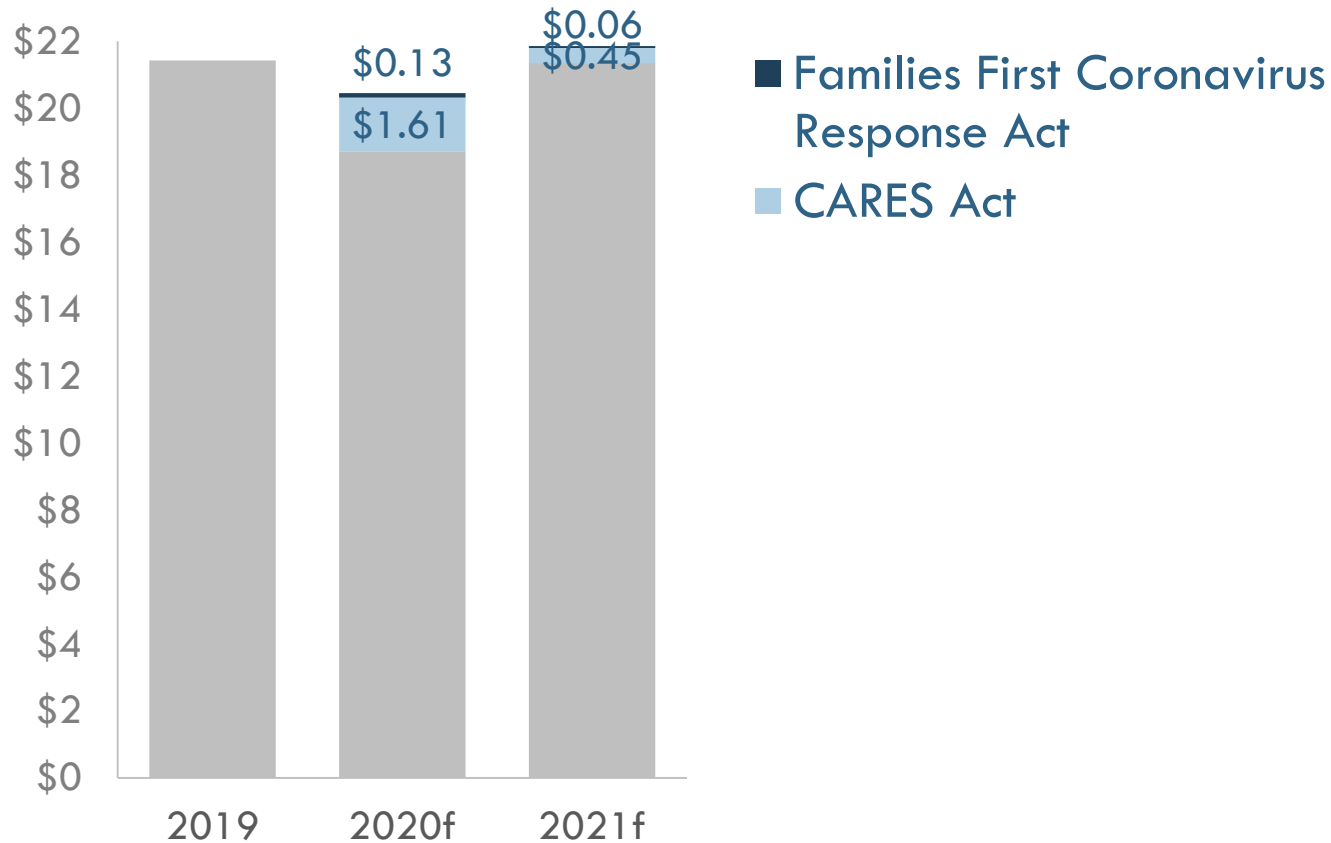
Colorado Unemployment Insurance Claims,
March 1 to April 25, 2020



Federal stimulus will partially offset deep declines in economic activity

Nominal U.S. GDP and the Federal Stimulus* Contribution

Trillions of Dollars



Source: Congressional Budget Office and Legislative Council Staff projections (f). Estimates subject to change.

*Reflects direct federal government spending. Excludes up to \$4.5 trillion in loans to businesses, states, and municipalities via the Federal Reserve lending facility.

COVID-19-Related Forecast Assumptions

- Gradual reopening of businesses throughout 2020
- Limited regional resurgences of the virus, but no additional widespread outbreaks or stay-at-home orders
- An effective COVID-19 treatment available in 12 to 18 months

Outlook Summary

- Economic activity came to a standstill in March and April, and is now stirring back to life but from low levels
- Business activity and consumer spending will rise with phased reopening, but remain constrained by ongoing restrictions, health concerns, uncertainty, and some permanent closures
- Labor markets will improve relative to April but remain weak in 2020 and 2021, as businesses adjust to a new and evolving landscape
- Inflationary pressures will remain subdued as low energy prices, low global demand offset global supply constraints

Risks to the Forecast

Unknowns: Rapidly evolving health and economic policy environment. The outlook depends on:

- Containment and treatment of COVID-19
- Fiscal and monetary policy stimulus

Downside risk: Prolonged economic recovery or a double-dip recession (COVID-19 resurgence, vicious cycle)

Upside risk: Stronger near-term rebound in economic activity

General Fund Budget Outlook



General Fund collections will decline with the contraction in business and household income, and reduced consumer activity

Gross General Fund Revenue

Billions of Dollars

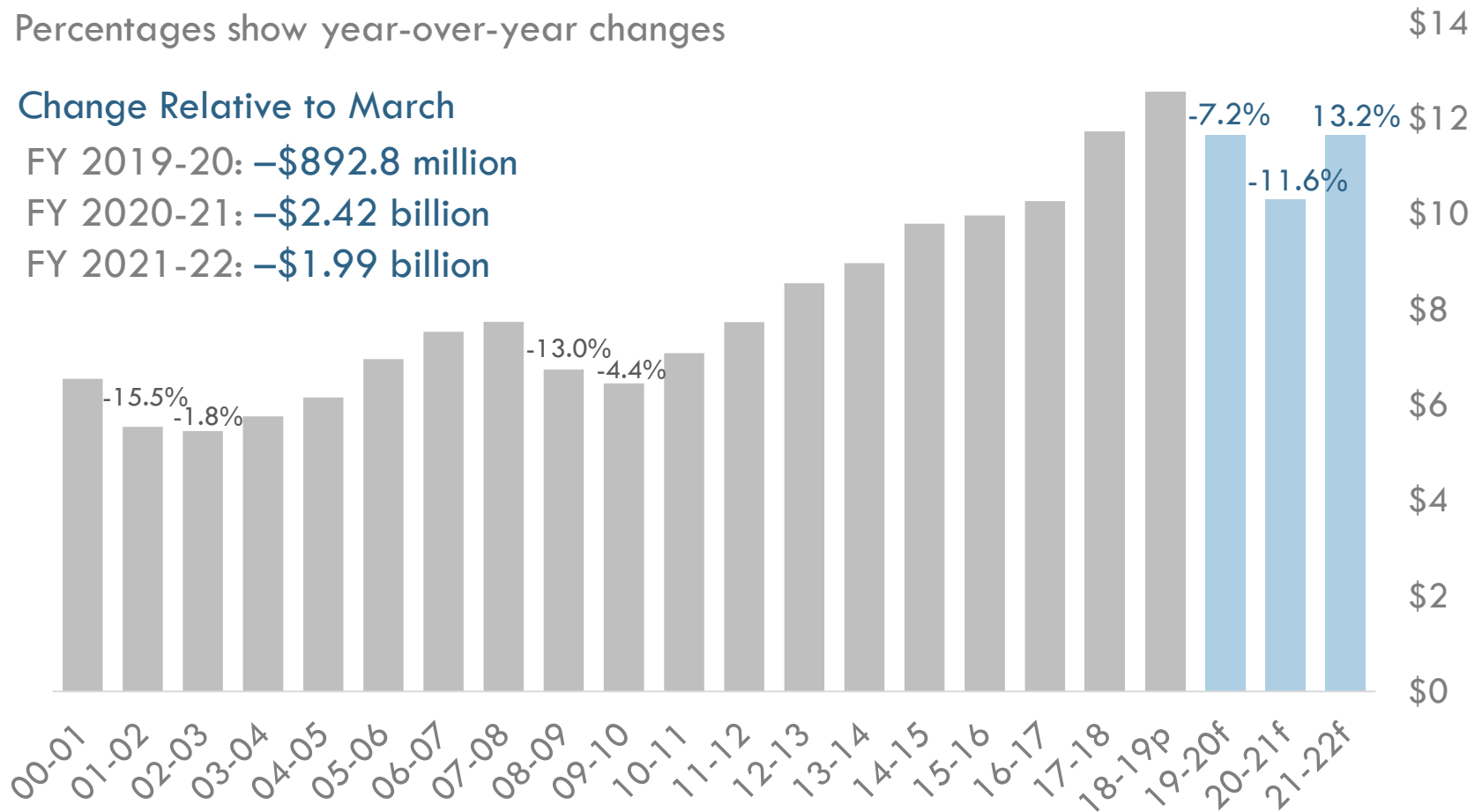
Percentages show year-over-year changes

Change Relative to March

FY 2019-20: **-\$892.8 million**

FY 2020-21: **-\$2.42 billion**

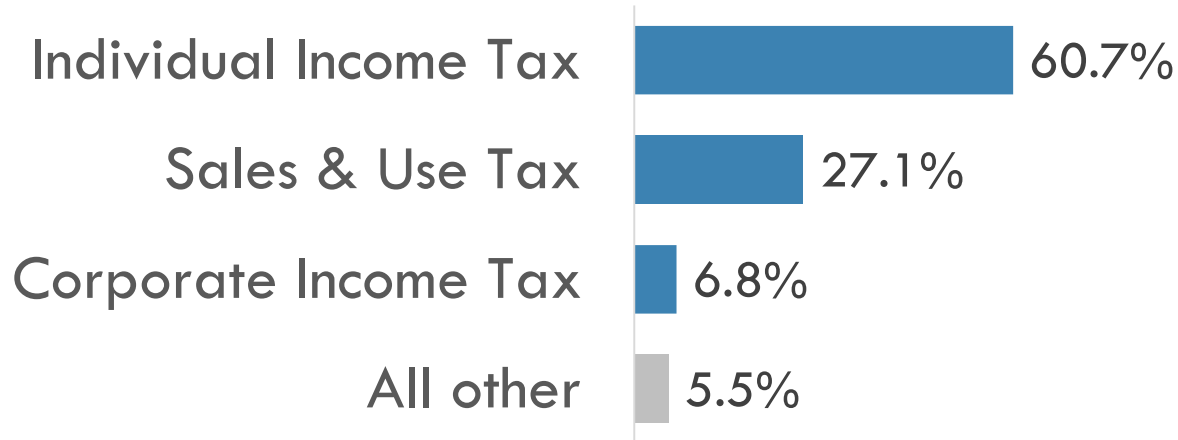
FY 2021-22: **-\$1.99 billion**



Source: Colorado Office of the State Controller and Legislative Council Staff May 2020 forecast update.

General Fund Collections by Source

Share of Total Gross General Fund Revenue*



Income taxes are more volatile than general economic activity. Collections show outsized declines during downturns due to the volatility in certain income flows, businesses losses, and the tax structure.

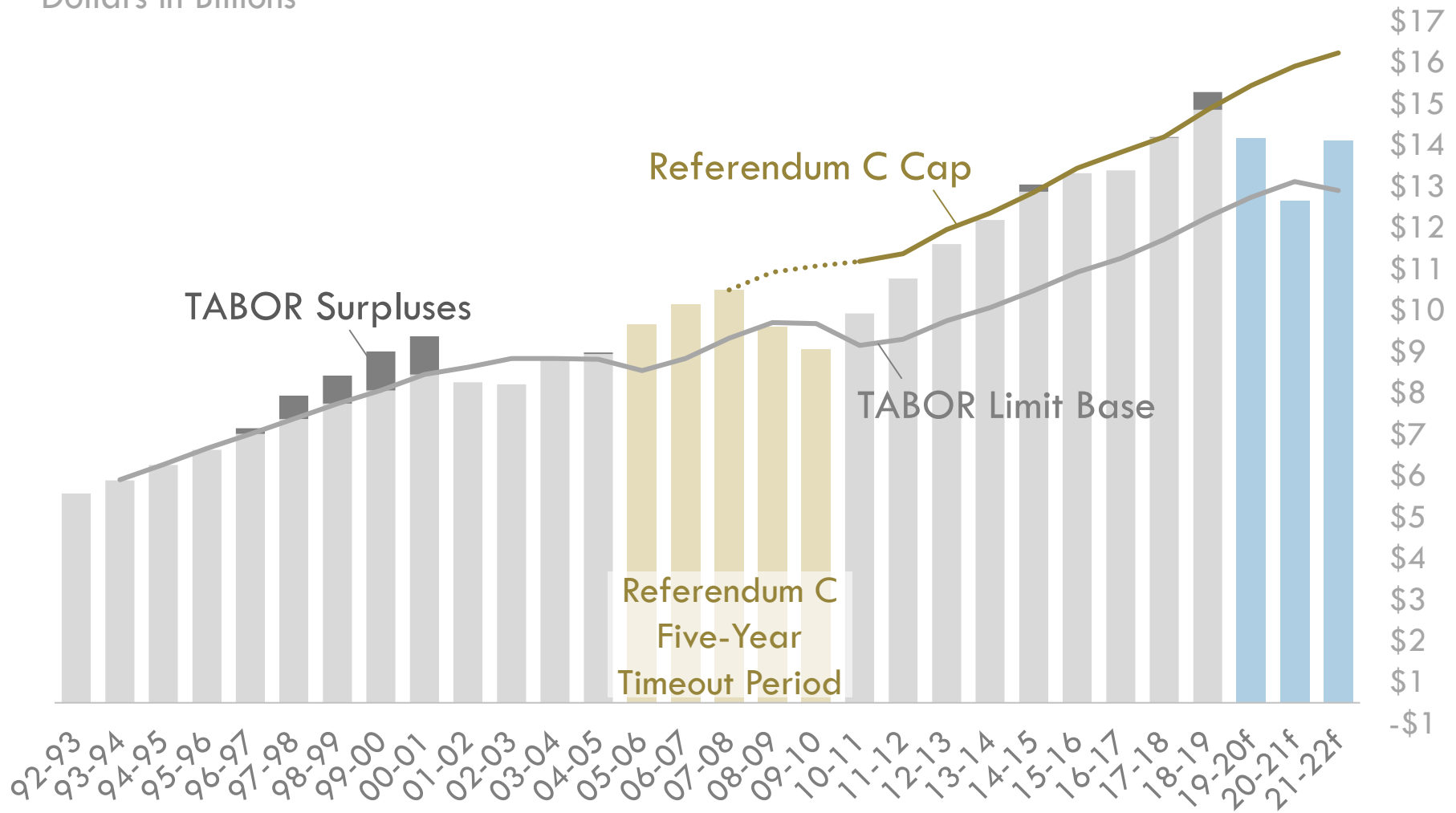
Source: Colorado Office of the State Controller and Legislative Council Staff calculations.

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

TABOR Outlook

Revenue Subject to TABOR

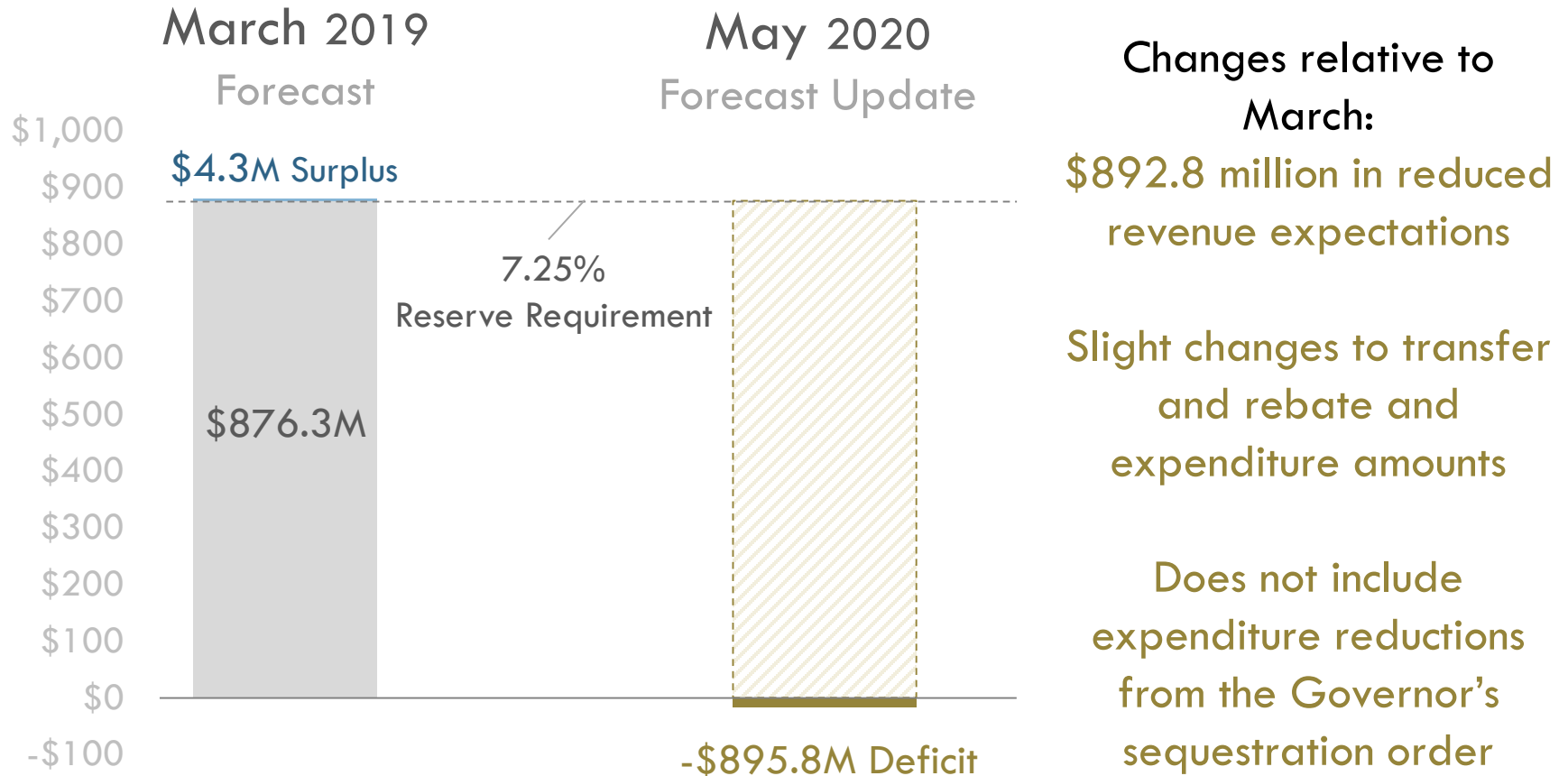
Dollars in Billions



Source: Colorado Office of the State Controller and Legislative Council Staff May 2020 forecast update.

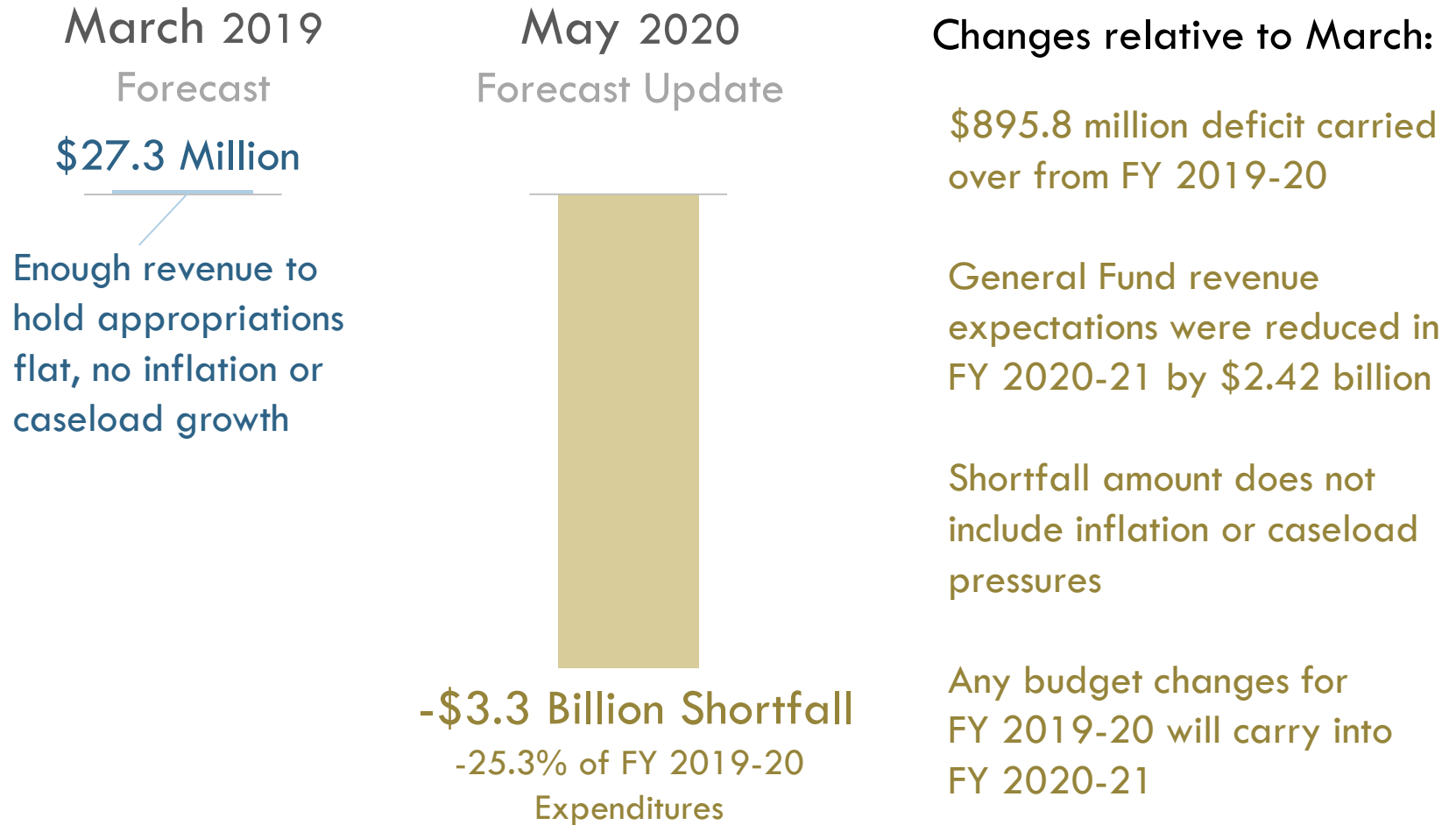
Current Year | FY 2019-20 General Fund Reserve

Dollars in Millions



Next Year | FY 2020-21 Budget Outlook

Additional revenue available to spend above FY 2019-20 spending levels.*



Source: Legislative Council Staff forecasts based on current law.

*Amounts hold FY 2019-20 appropriations constant and incorporate the revenue forecast, current law transfers, rebates and expenditures, TABOR refund obligations, and the 7.25% reserve requirement.

Risks to the Forecast

Unknowns: Rapidly evolving health and economic policy environment. The outlook depends on:

- Containment and treatment of COVID-19
- Fiscal and monetary policy stimulus

Downside risk: Prolonged economic recovery or a double-dip recession (COVID-19 resurgence, vicious cycle)

Upside risk: Stronger near-term rebound in economic activity

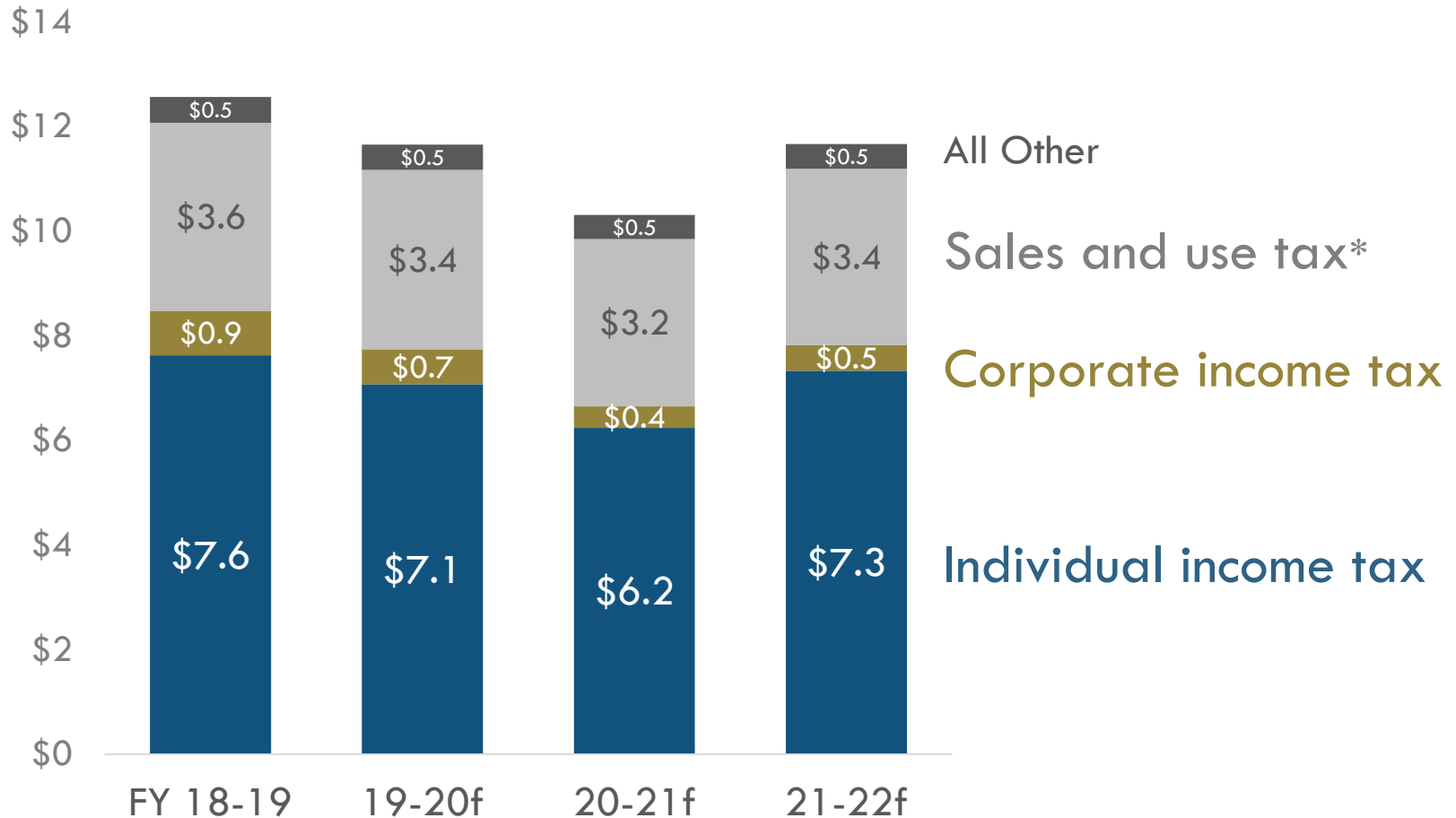
Income Tax Expectations



Income tax revenue will drive General Fund revenue decreases

General Fund Revenue by Source

Dollars in Billions



Source: Colorado Office of the State Controller and Legislative Council Staff May 2020 forecast update. "f" denotes forecast.

*Includes retail marijuana special sales tax.

Income tax decreases are economic, but there are complicating factors

Economic factors will suppress collections

- Wage withholding: No decrease yet, but it's coming
- Estimated tax payments reflect expectations for full tax year
- Business income is a significant portion of individual income tax revenue
- Businesses that incur losses do not owe income tax

FY 2018-19 benefitted from one-time revenue boosts, which makes for a steeper decline in FY 2019-20

- TCJA accelerated economic activity in 2018 and 2019
- *Oracle* and *Agilent* cases

Distortions exacerbate forecast uncertainty

- Delay of filing deadlines and accruals across fiscal years
- Change to state wage withholding tables

The CARES Act will reduce state income tax revenue

Tax relief in the CARES Act

- Additional deductions for businesses
- Delayed taxable income for retirees
- Preliminarily estimated to decrease state revenue by: (\$121 million) in FY 2019-20 and (\$135 million) in FY 2020-21

Energy Outlook



Twin supply and demand shocks tanked oil prices

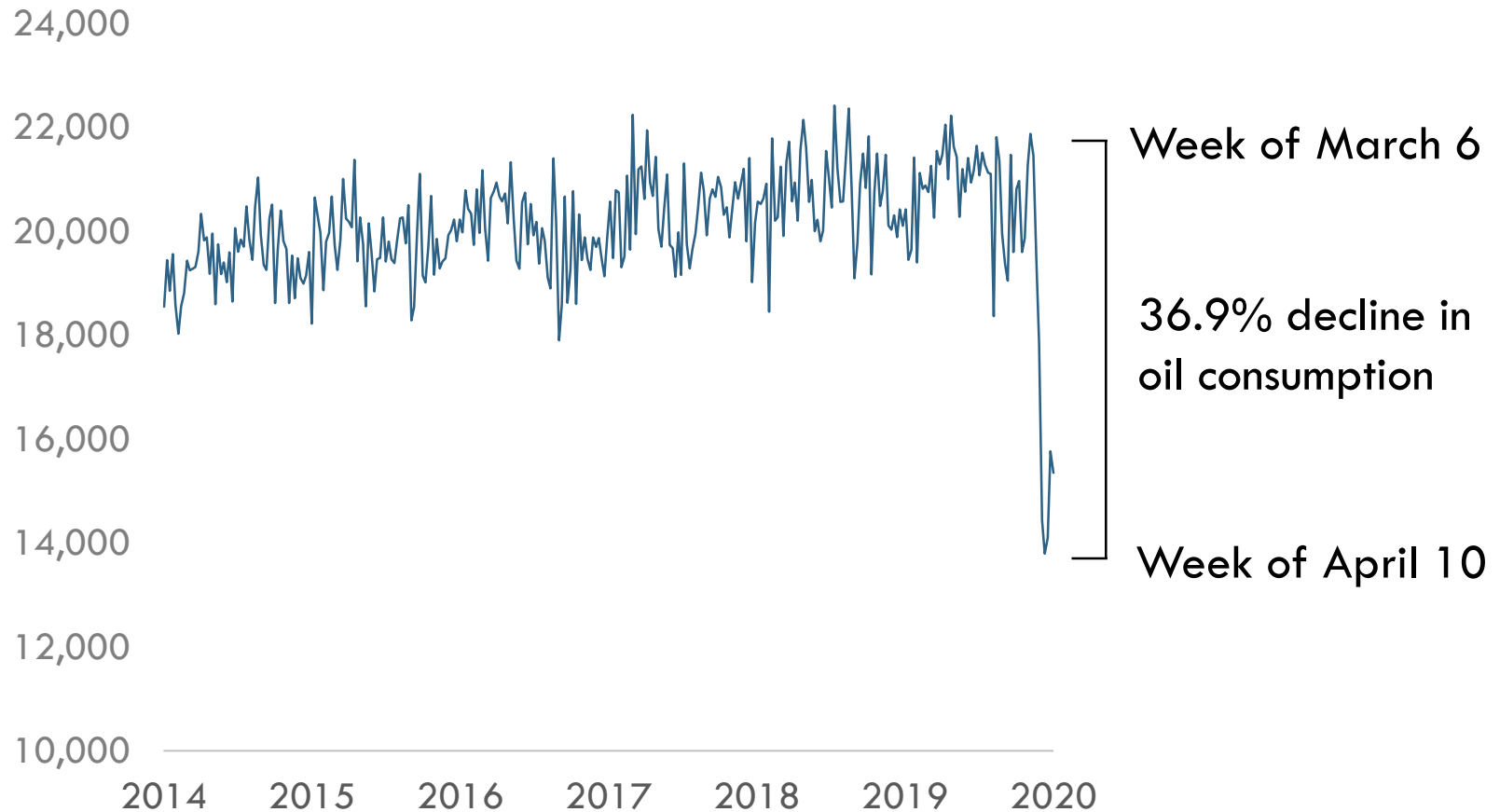
Crude Oil Price, West Texas Intermediate
Dollars per Barrel



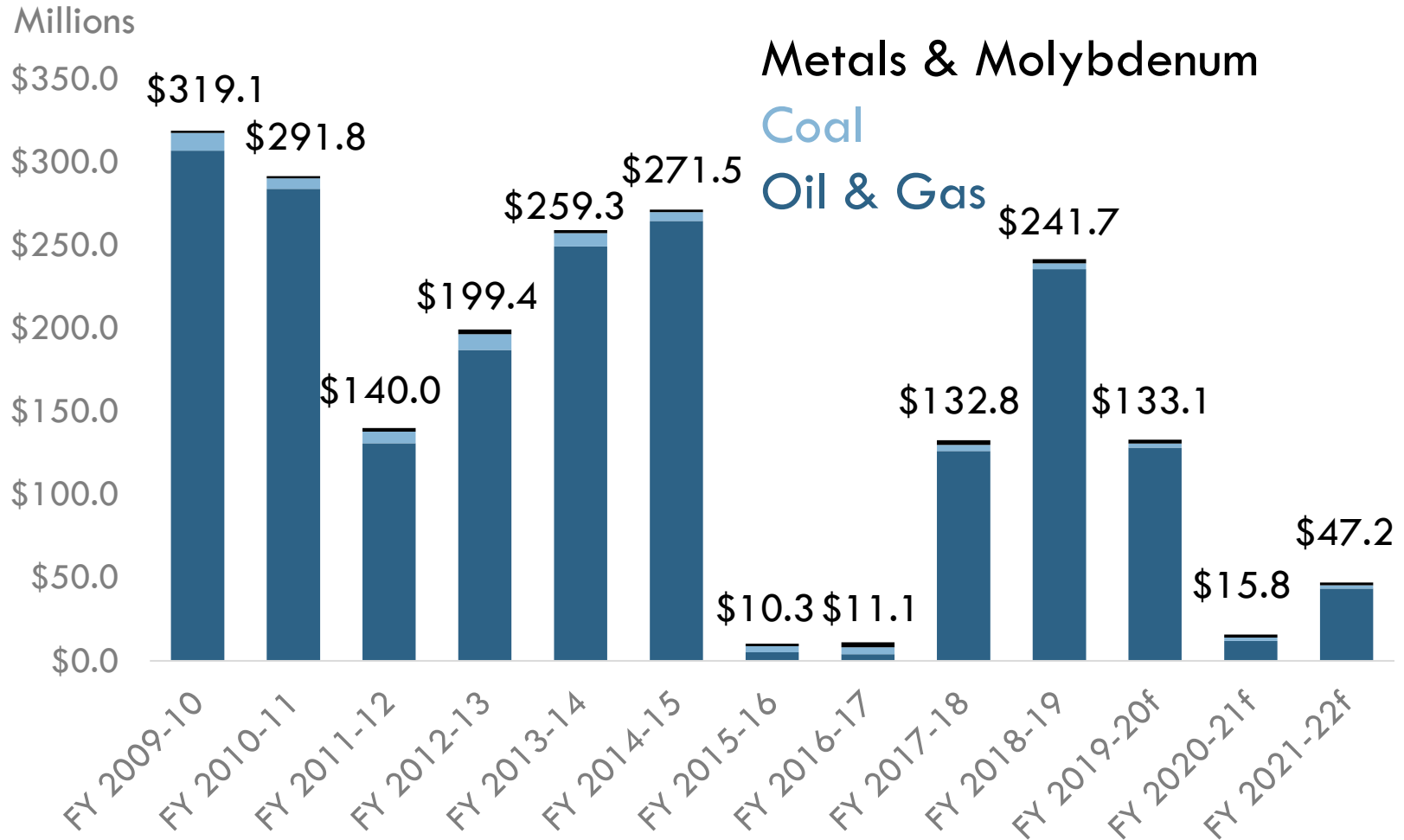
U.S. oil demand plummeted with stay-at-home orders

U.S. Petroleum Products Supplied

Thousands of Barrels per Day



Severance tax collections are expected to remain depressed through the forecast period



Unemployment Insurance Outlook



Current State and Federal UI Benefits

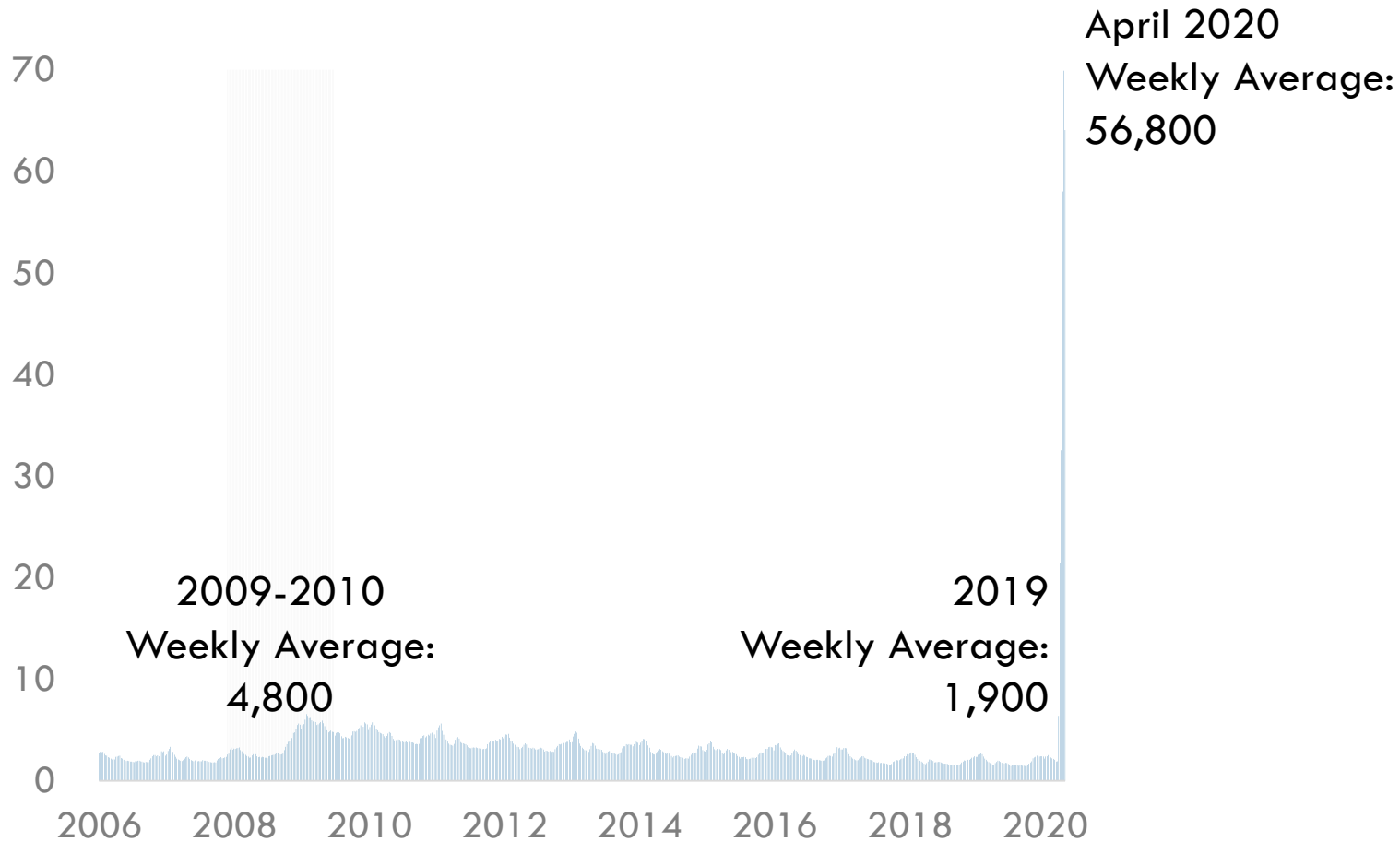
Funding Source	State	State & Federal*	Federal
Benefits	Regular	Extended	Temporary
Description	Partial wage replacement for up to 26 weeks	Not yet available. Extended benefits are triggered by persistently elevated state unemployment rates*	Extends eligibility to self-employed workers and independent contractors; Additional \$600 per week for up to four months;** up to 13 additional weeks of benefits after others are expended <i>Expires December 2020</i>

* States are normally required to cover half the costs of extended benefit programs. However, this requirement was suspended during the Great Recession and has currently been suspended through 2020, allowing full federal funding should extended benefits be triggered.

** Expires July 2020.

Colorado Initial Unemployment Claims

Four-week Average, Thousands of Claims



Unemployment Insurance Trust Fund

Revenues, Benefits Paid, and Fund Balance

Dollars in Millions

	Actual FY 2018-19	Estimate FY 2019-20	Estimate FY 2020-21	Estimate FY 2021-22
Beginning Balance	\$922.3	\$1,104.1	(\$7.0)	(\$1,994.8)
Plus Income Received				
UI Premium	\$523.0	\$531.5	\$692.0	\$676.1
Solvency Surcharge	\$0.0	\$0.0	\$147.2	\$143.8
Interest	\$23.3	\$21.1	\$0.0	\$0.0
Total Revenues	\$546.3	\$552.6	\$839.2	\$819.9
Less Benefits Paid	(\$365.5)	(\$1,663.7)	(\$2,827.1)	(\$1,302.9)
Ending Balance	\$1,104.1	(\$7.0)	(\$1,994.8)	(\$2,477.8)
Solvency Ratio*	0.87%	-0.01%	-1.36%	-1.61%

Source: Legislative Council Staff May 2020 forecast update. Totals may not sum due to rounding.

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

Questions?

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