



December 2018 | Legislative Council Staff  
**Economic & Revenue Forecast**

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Presentation to the Joint Budget Committee

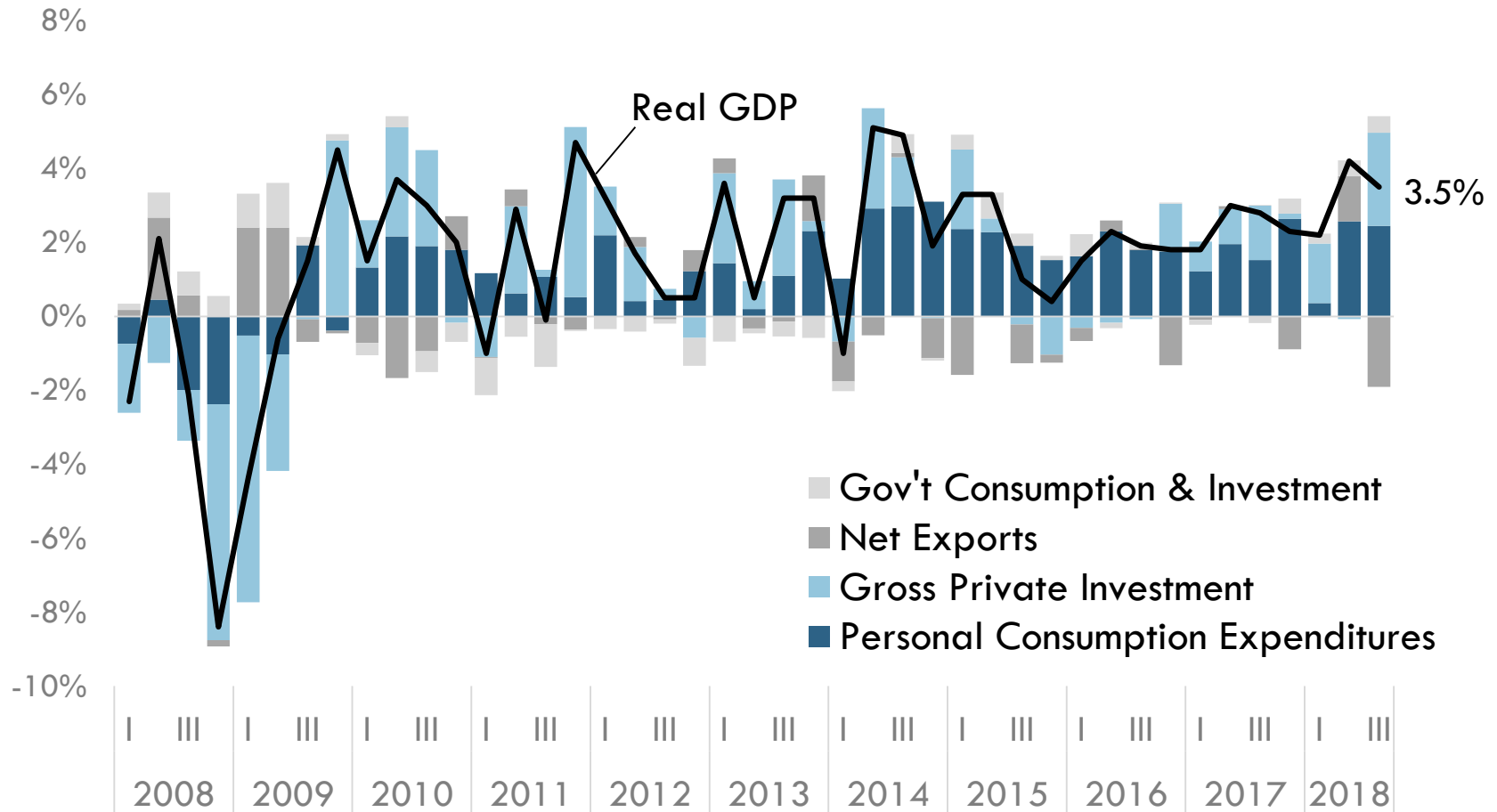
December 20, 2018

# Economic Outlook



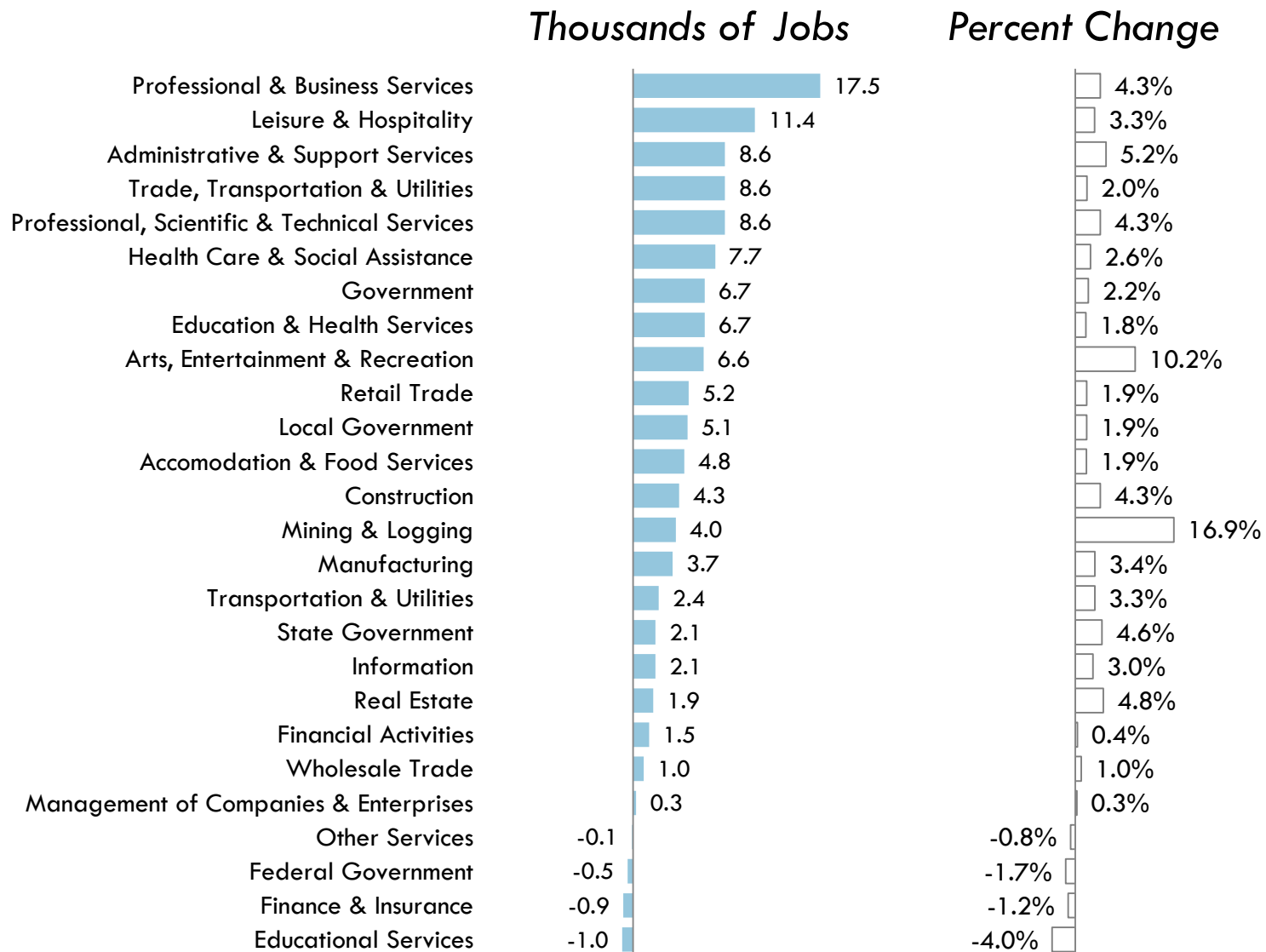
# Strong growth in Q3 pulled down by net exports

Contributions to Real Gross Domestic Product (GDP)



# Colorado continues to add jobs across industries

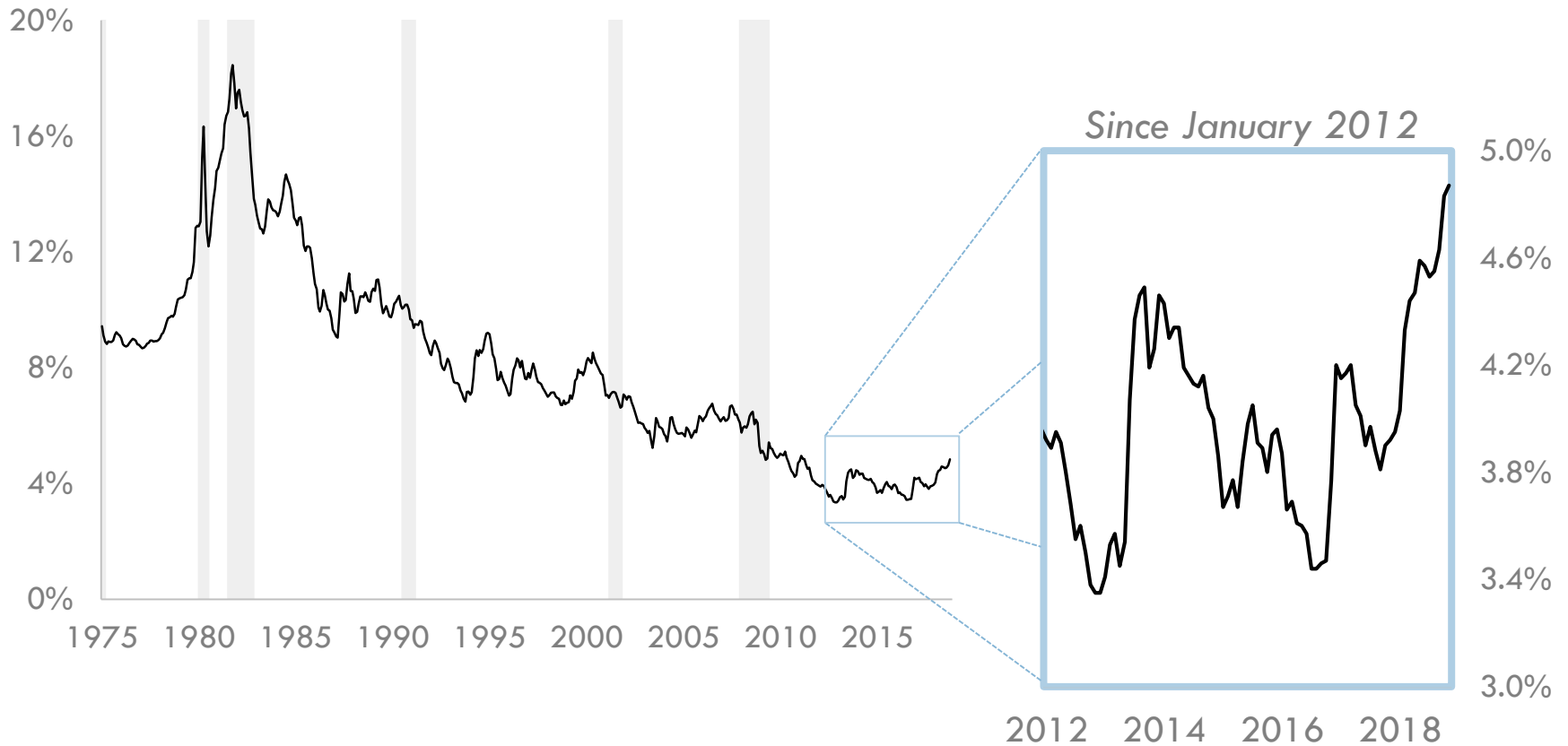
Year-over-Year Change in October 2018



# Interest and mortgage rates are on the rise

## U.S. 30-Year Fixed Mortgage Rate

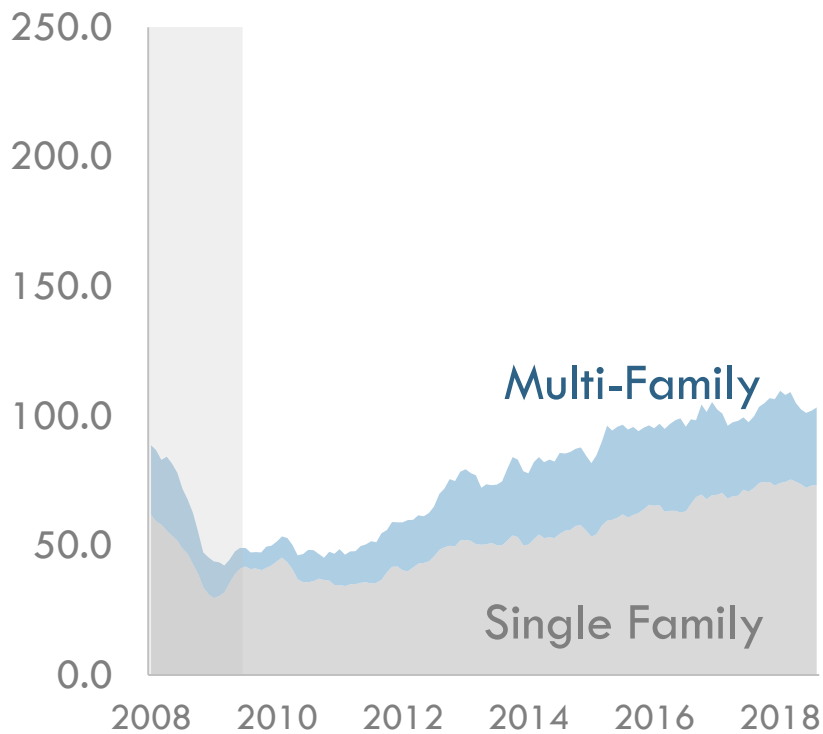
History since 1975



# ...which is cooling off housing markets.

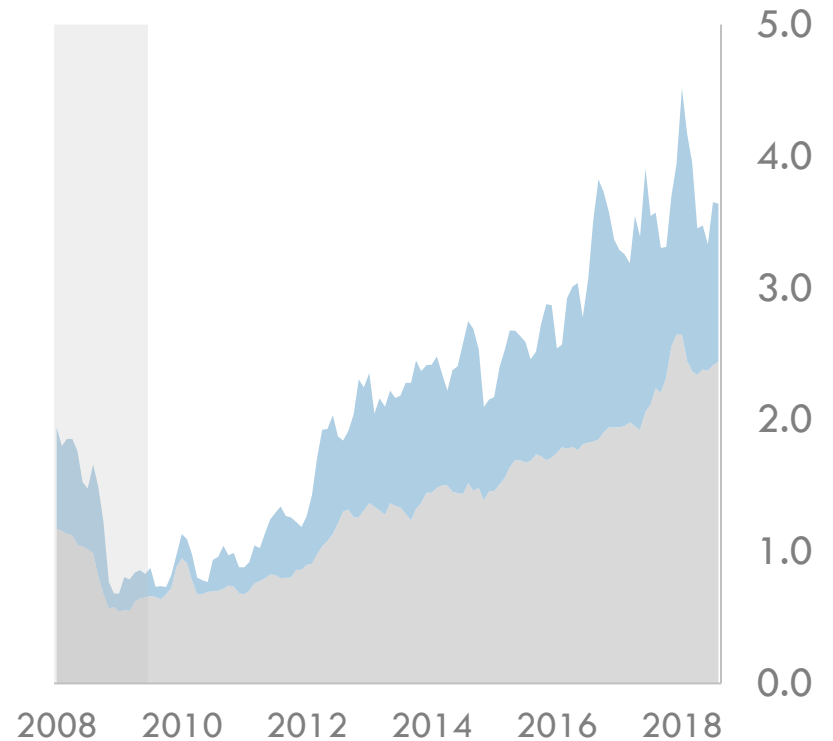
## U.S. Housing Permits

*Thousands of Units*



## Colorado Housing Permits

*Thousands of Units*

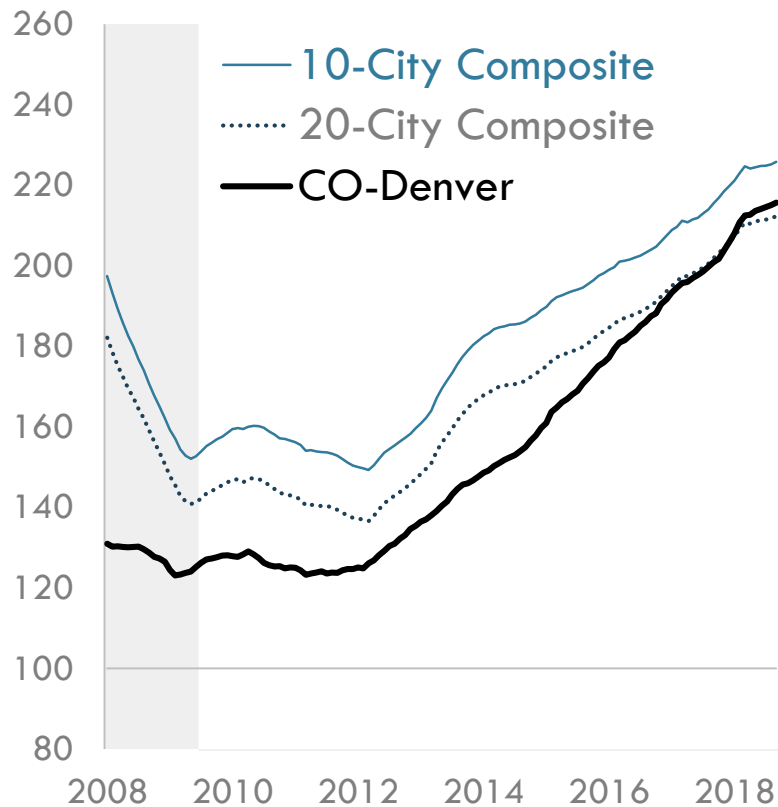


Source: U.S. Census Bureau. Seasonally adjusted three-month moving averages.

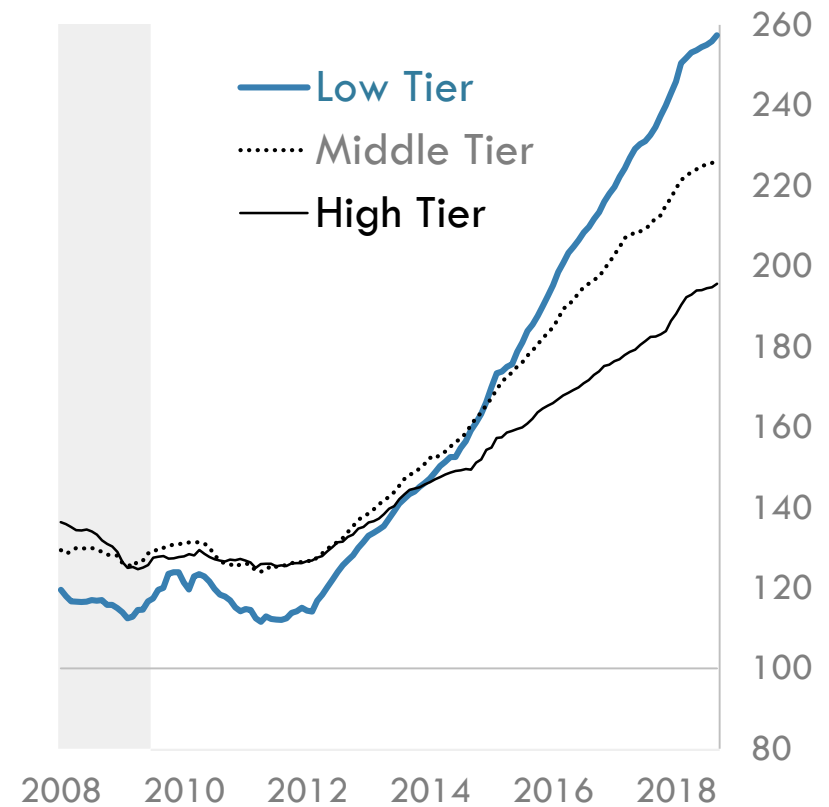
# Home price increases are beginning to slow

## Case-Shiller Home Price Indices

Index 100 = January 2000

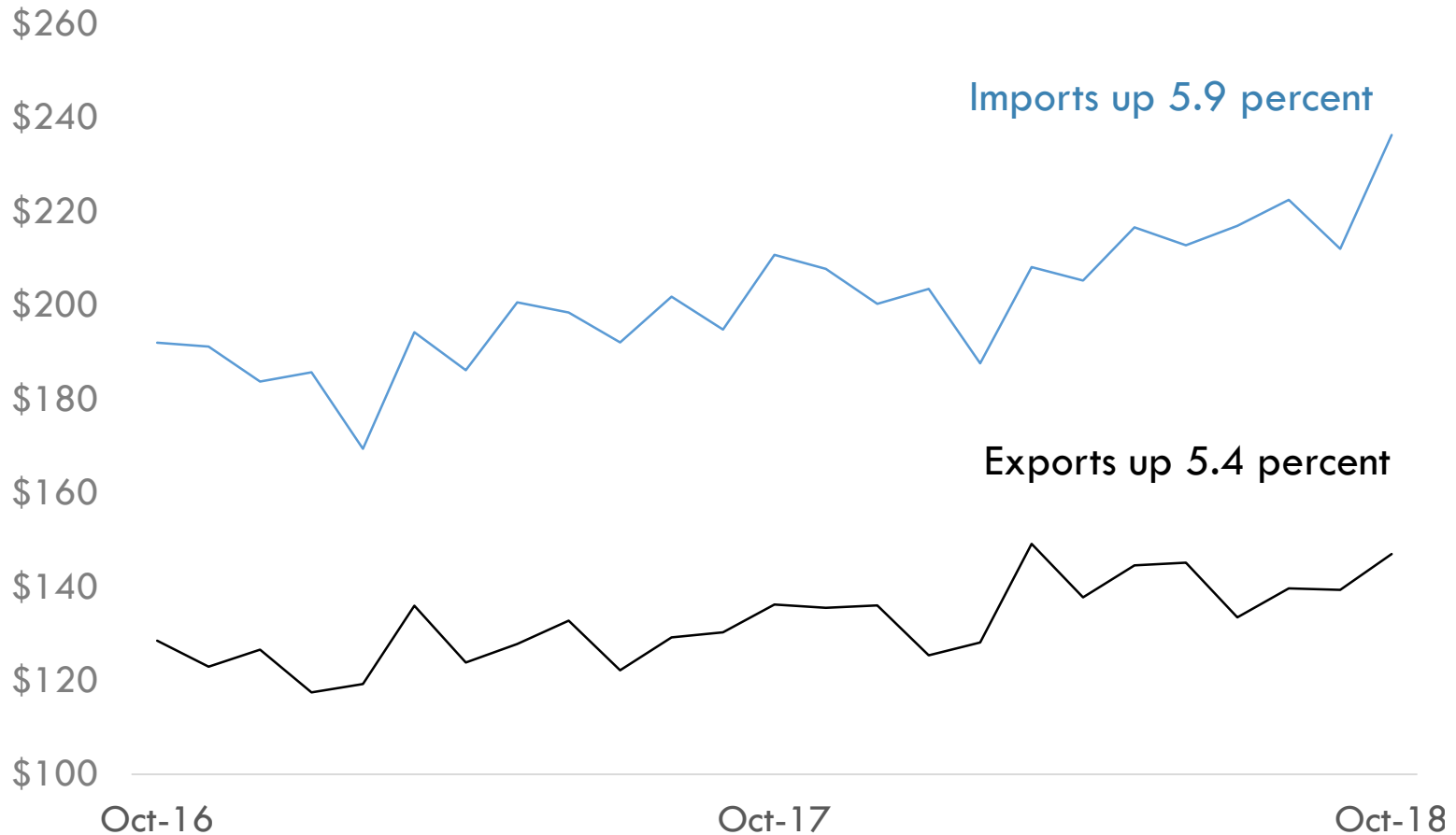


## Denver Home Prices



# Trade tensions remain high – so does trade activity

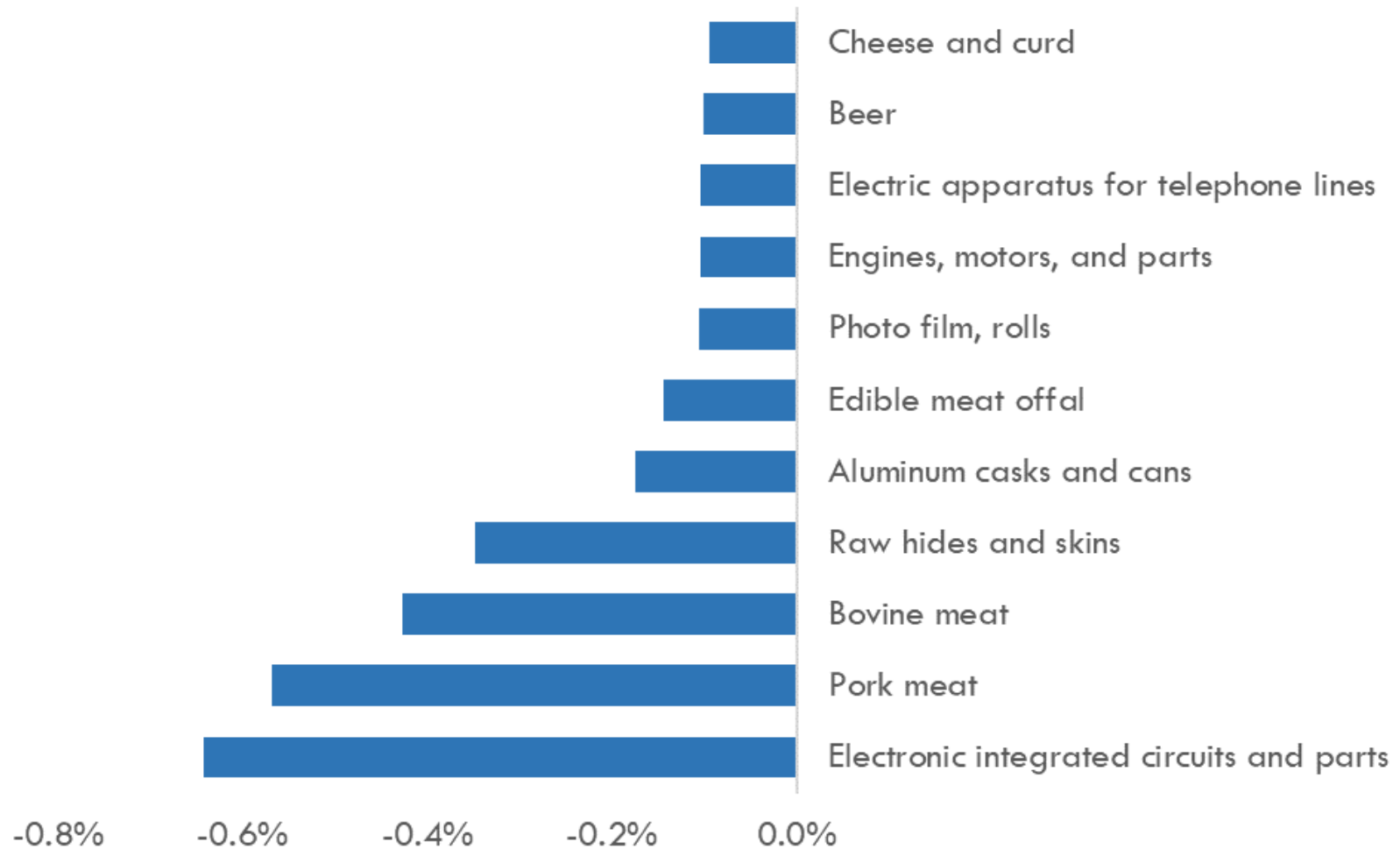
Colorado export and import activity on a monthly basis (dollars in millions); increases from January through October 2018 over the same period last year.





# Colorado exports subject to tariffs weighing on growth

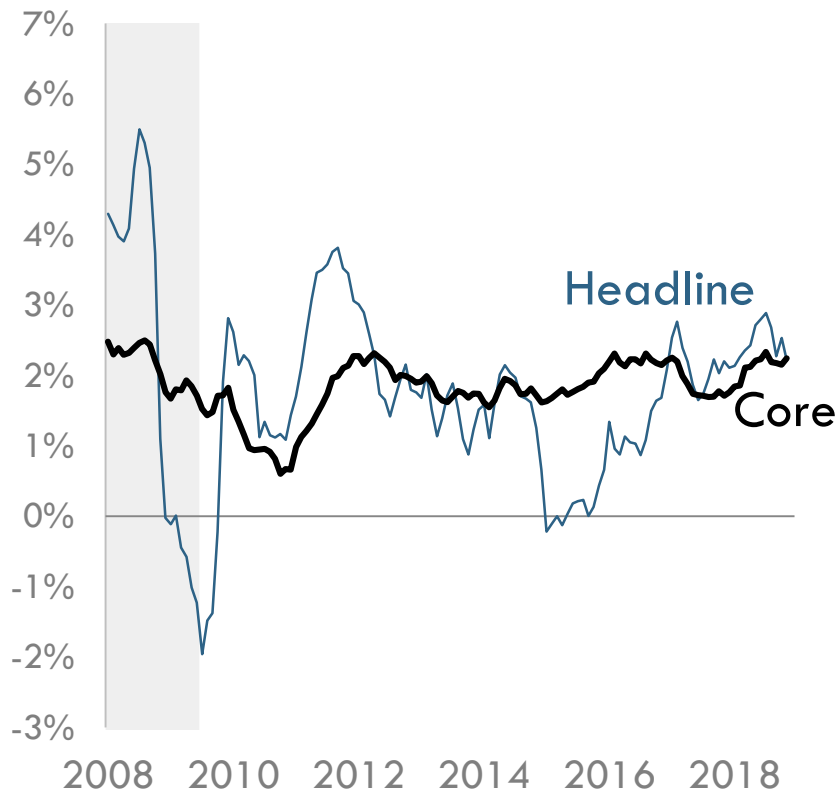
Contributions to percent change in the value of Colorado exports impacted by tariffs  
January through October 2018 over the same period last year



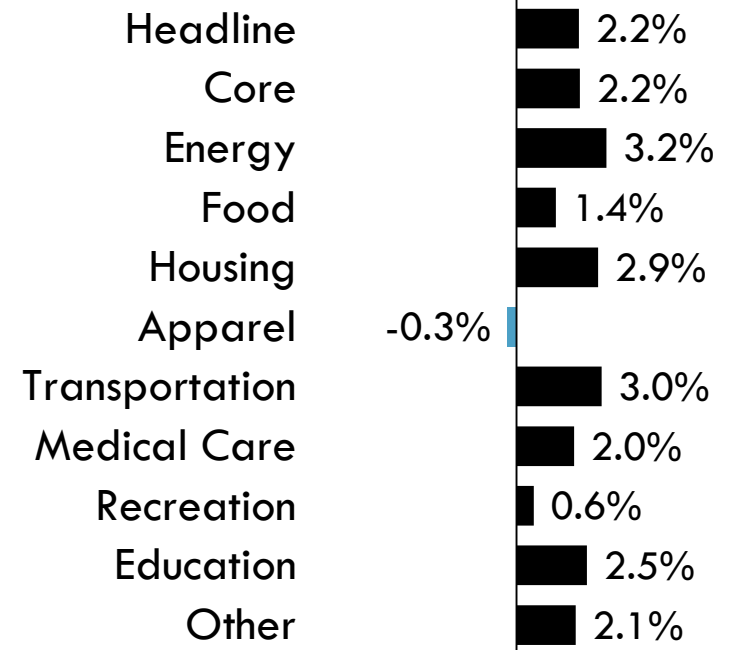
# Core inflation has yet to react to tariffs

## CPI-U Inflation

Year-over-Year Change in Prices



November 2018 over November 2017



# Oil prices have dropped almost 40% since October

## West Texas Intermediate Crude Oil Price

*Dollars per Barrel*



## U.S. Crude Oil Stocks

*Billions of Barrels*



# Economic Summary

## The near-term outlook is positive, but moderating

- Growth will continue but at a slower pace
- Low unemployment may constrain further growth
- The housing market is cooling with higher interest rates and construction costs

## Uncertainties cloud the outlook

- Trade tensions will continue to rattle confidence
- Global economy is slowing down
- Volatility in commodity prices expected to persist

# General Fund Budget Outlook

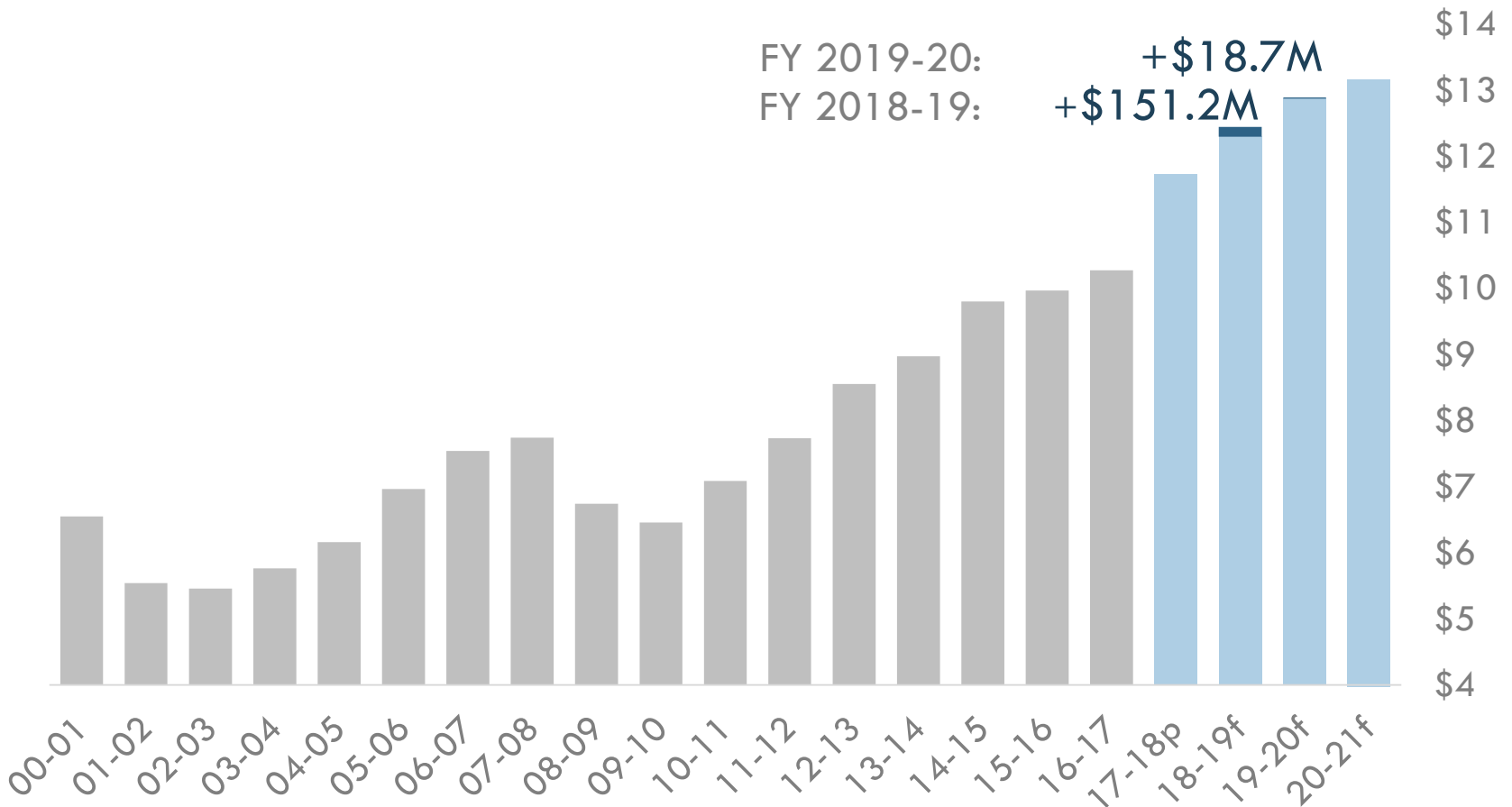


# Revenue continues to exceed expectations

## Gross General Fund Revenue

Billions of Dollars

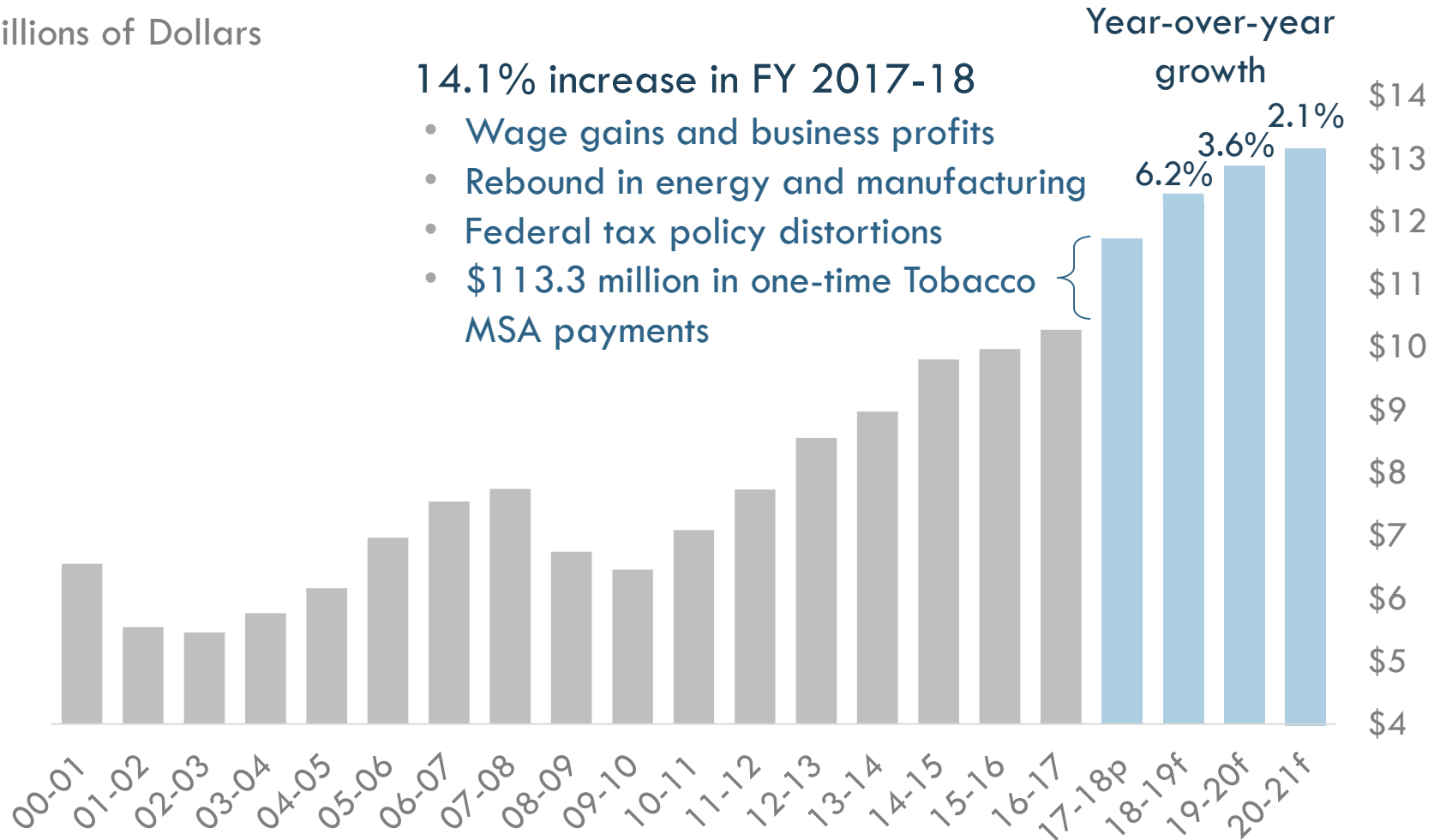
Change Relative to September



# Following double-digit growth in FY 2017-18, revenue growth is expected to moderate

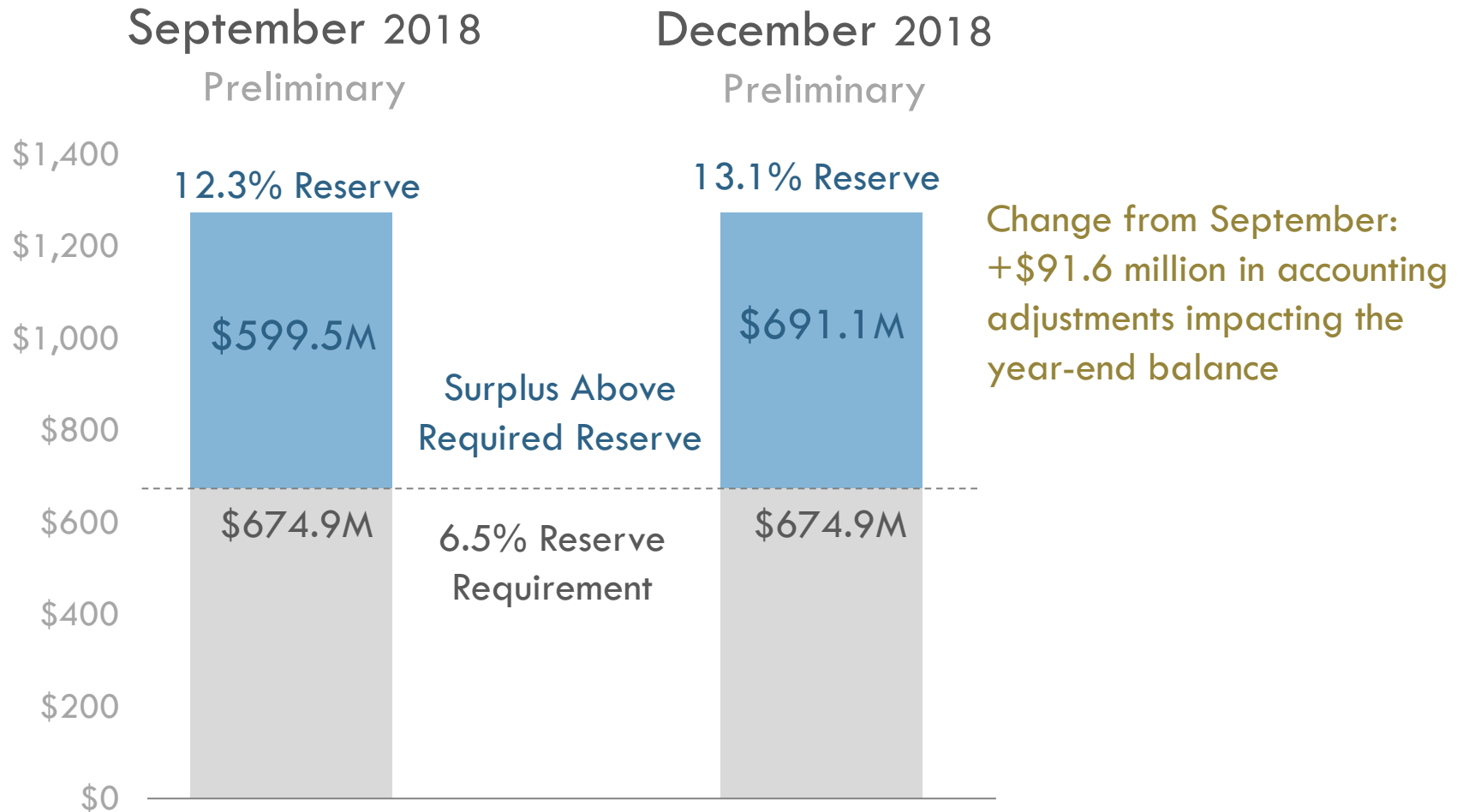
## Gross General Fund Revenue

Billions of Dollars



# Last Year | FY 2017-18 General Fund Reserve

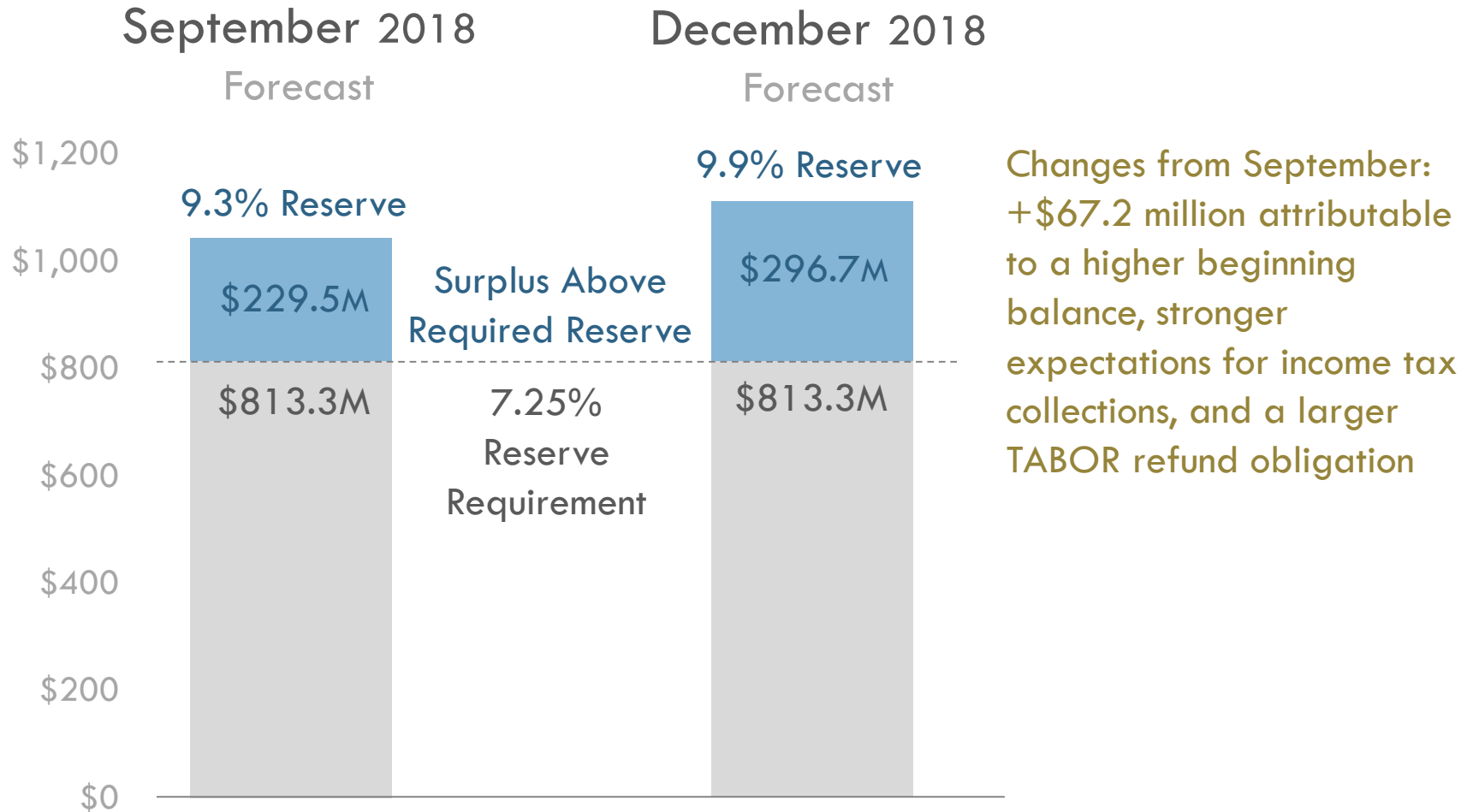
Dollars in Millions





# Current Year | FY 2018-19 General Fund Reserve

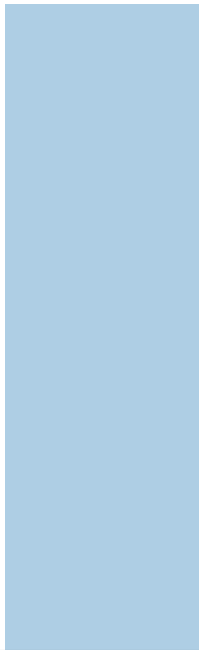
Dollars in Millions



# Next Year | FY 2019-20 Budget Outlook

General Fund available above FY 2018-19 appropriations to spend, save, or return to taxpayers

\$1.22 billion\*

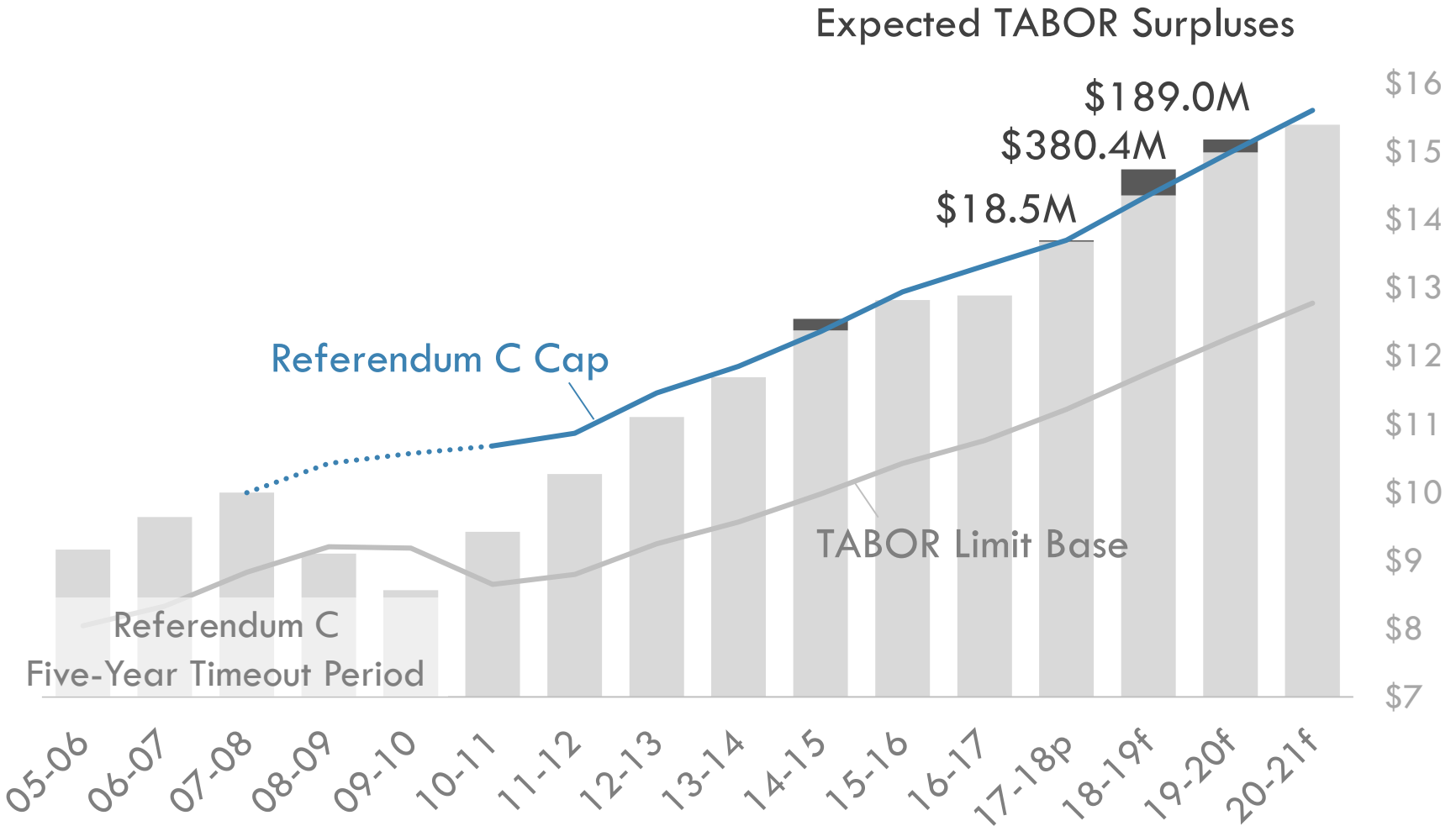


\*Reflects revenue expectations and transfers required under current law for FY 2019-20. Since a budget has not yet been set for FY 2019-20, this amount assumes FY 2018-19 appropriations and reserve requirements. Any changes to current law, including FY 2018-19 appropriations, will result in changes to this amount.

# TABOR Outlook

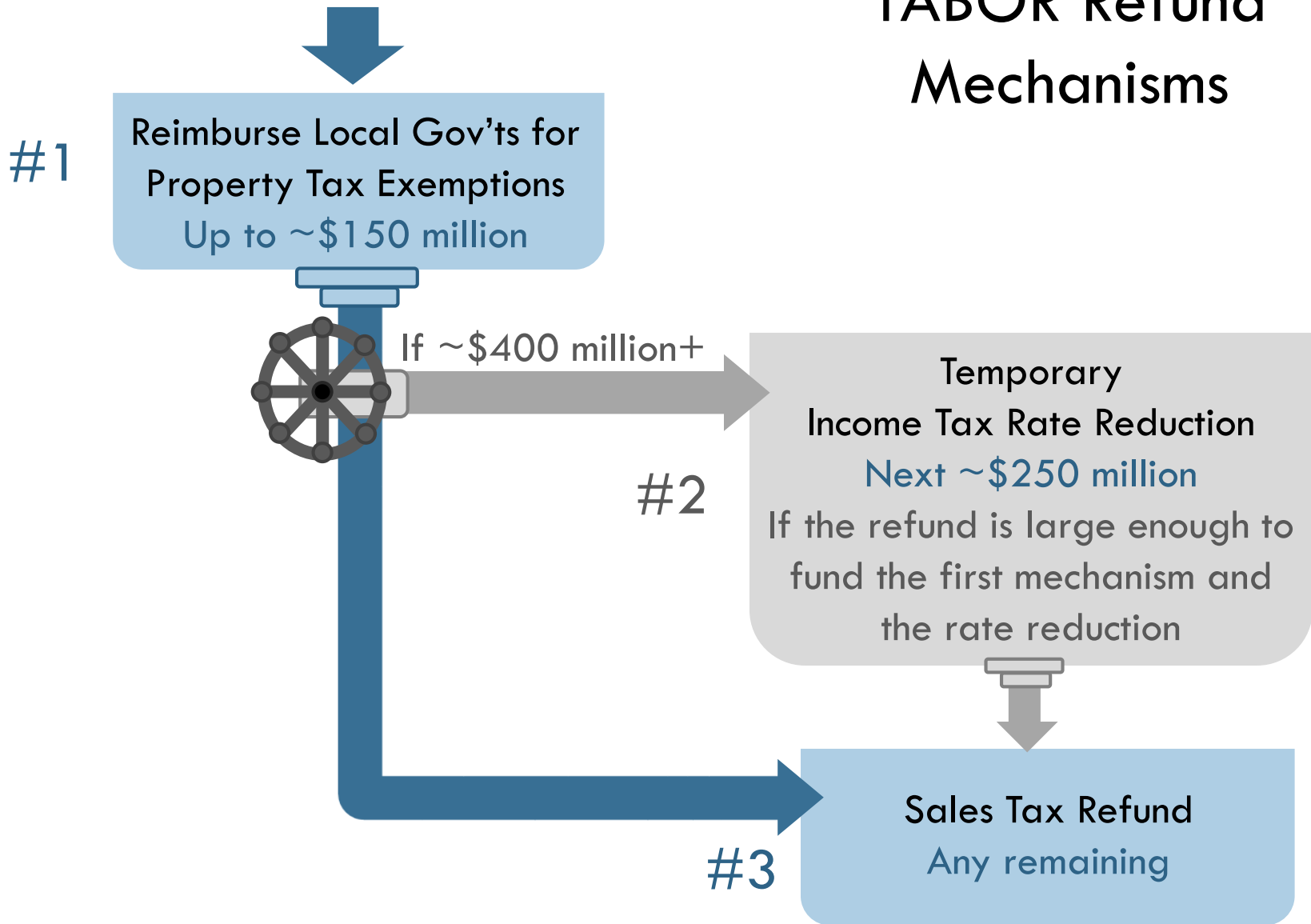
Revenue Subject to TABOR

Dollars in Billions



Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 forecast.

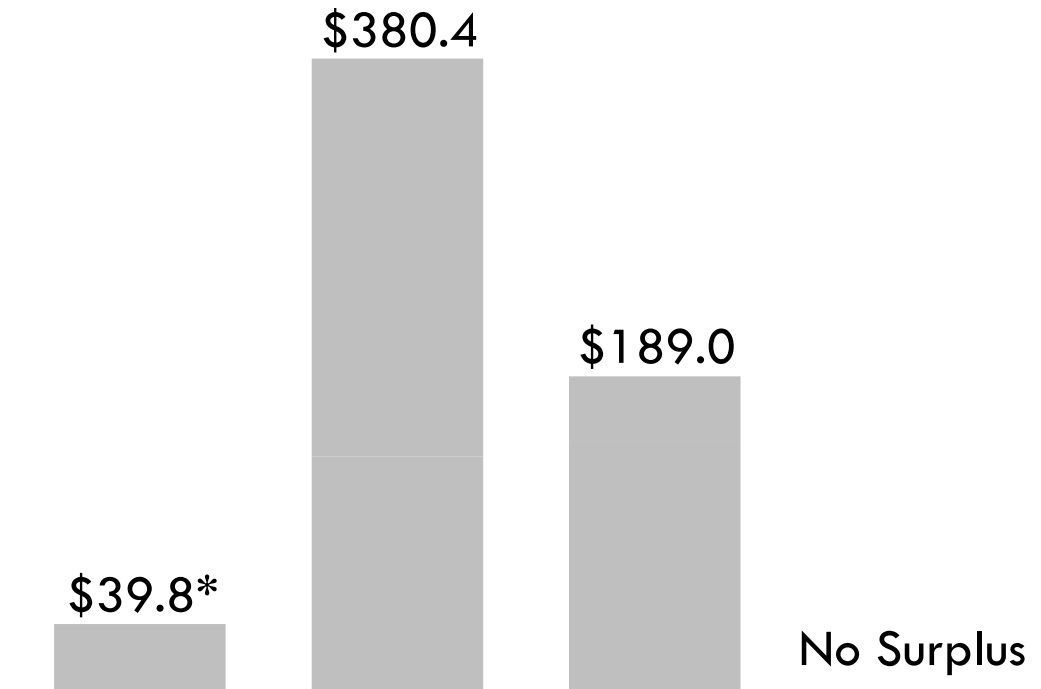
# TABOR Refund Obligation



TABOR surplus revenue is set aside in the year in which a surplus occurs to pay refunds in the following budget year

## Expected TABOR Refunds & General Fund Budget Impacts

Dollars in Millions



TABOR Surplus & Set Aside:	2017-18	2018-19	2019-20	2020-21
Refunded in Fiscal Year:	2018-19	2019-20	2020-21	

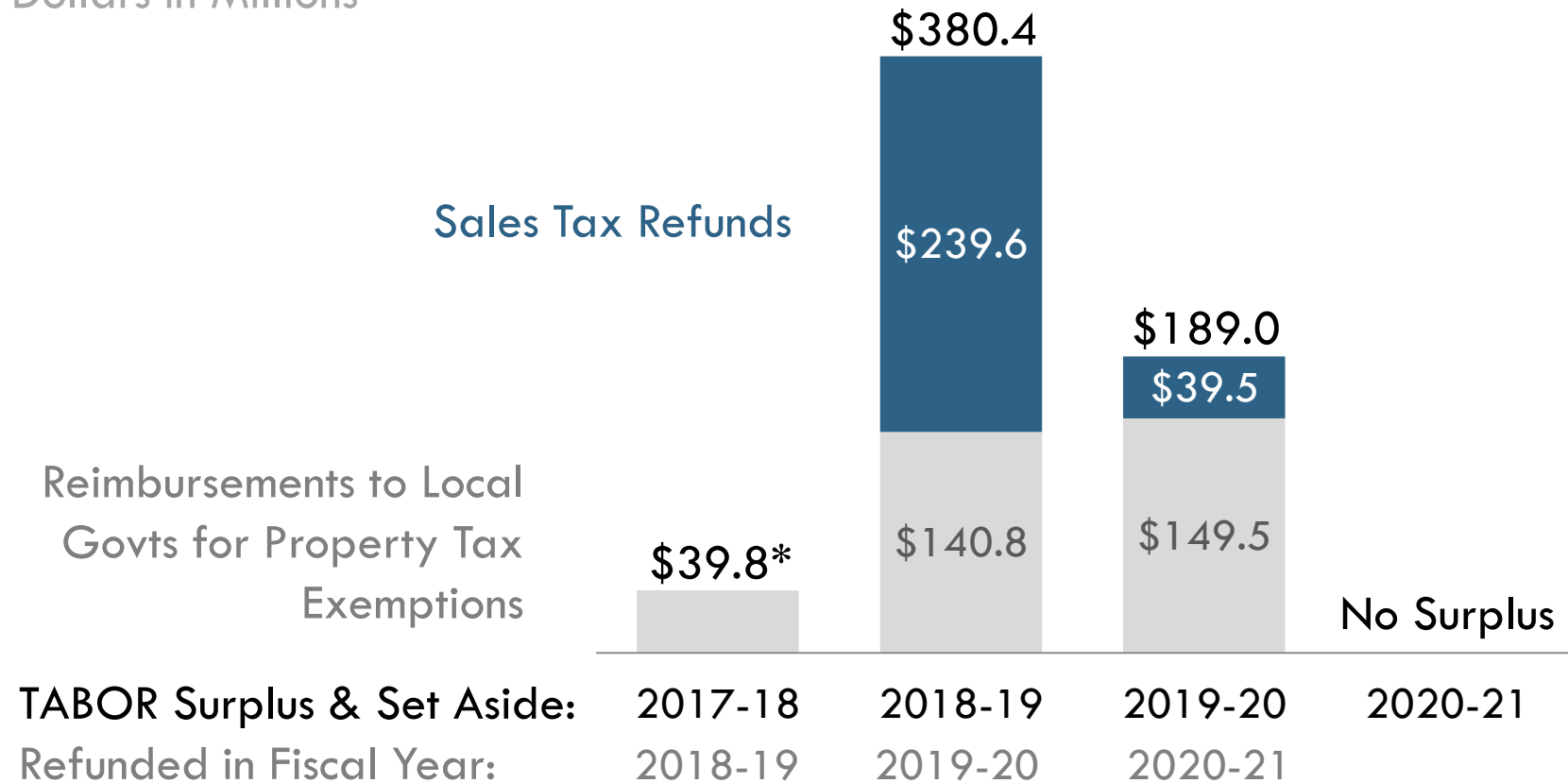
Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 forecast.

\*This amount includes the \$18.5 million FY 2017-18 surplus and \$21.3 million in under-refunds from the FY 2014-15 surplus.

TABOR surplus revenue is set aside in the year in which a surplus occurs to pay refunds in the following budget year

## Expected TABOR Refunds & General Fund Budget Impacts

Dollars in Millions



Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 forecast.

\*This amount includes the \$18.5 million FY 2017-18 surplus and \$21.3 million in under-refunds from the FY 2014-15 surplus.

# Risks to the Forecast

- **Current FY 2018-19 risks are skewed to the upside**
  - Elevated economic activity will carry into 2019
  - Federal tax policy distortions
  - Out-of-state sales tax collections      ...Larger TABOR refunds?
- **Longer-term risks are skewed to the downside**
  - Slower growth and rising risk of recession as the economic expansion matures
- **Higher than usual uncertainty clouds the outlook**
  - Unknown impacts of federal tax law changes
  - Out-of-state sales tax collections

# K-12 Enrollment Forecast





# K-12 Public School Enrollment

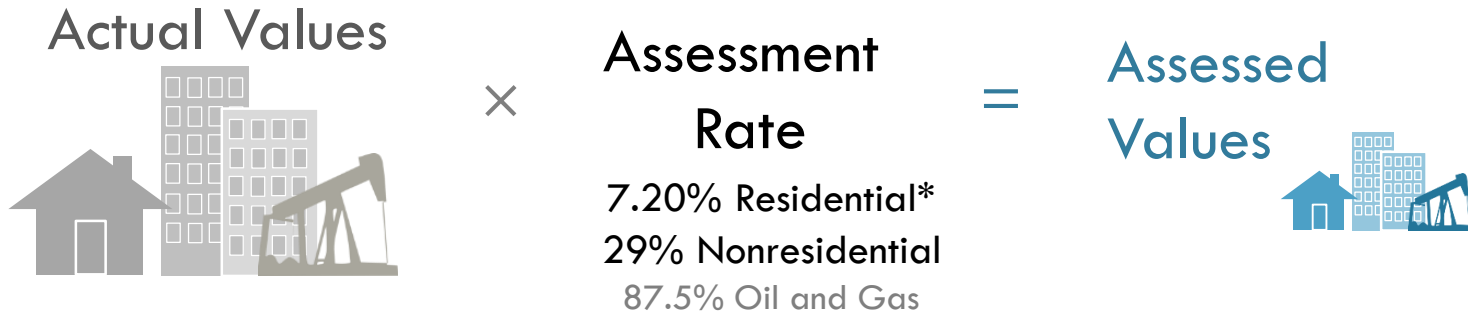
## Full-Time Equivalent Students

Region	Actual 2018-19	Percent Change	Estimated 2019-20	Percent Change	Estimated 2020-21	Percent Change	Average Growth
Metro Denver	478,836	-0.3%	477,174	-0.3%	475,612	-0.3%	-0.3%
Northern	87,551	1.4%	88,737	1.4%	89,812	1.2%	1.3%
Colorado Springs	118,462	0.6%	119,616	1.0%	120,806	1.0%	1.0%
Pueblo	32,099	-1.5%	31,746	-1.1%	31,625	-0.4%	-0.7%
Eastern Plains	25,754	2.9%	26,124	1.4%	36,325	0.8%	1.1%
San Luis Valley	7,215	0.6%	7,244	0.4%	7,277	0.5%	0.4%
Mountain	24,837	-0.7%	24,953	0.5%	25,050	0.4%	0.4%
Southwest Mountain	13,054	1.0%	13,103	0.4%	13,159	0.4%	0.4%
Western	50,271	-0.1%	50,286	0.0%	50,483	0.4%	0.2%
<b>Statewide Total</b>	<b>838,079</b>	<b>0.1%</b>	<b>838,983</b>	<b>0.1%</b>	<b>840,150</b>	<b>0.1%</b>	<b>0.1%</b>

# Assessed Valuation Forecast

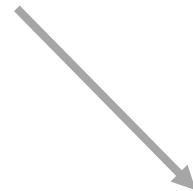
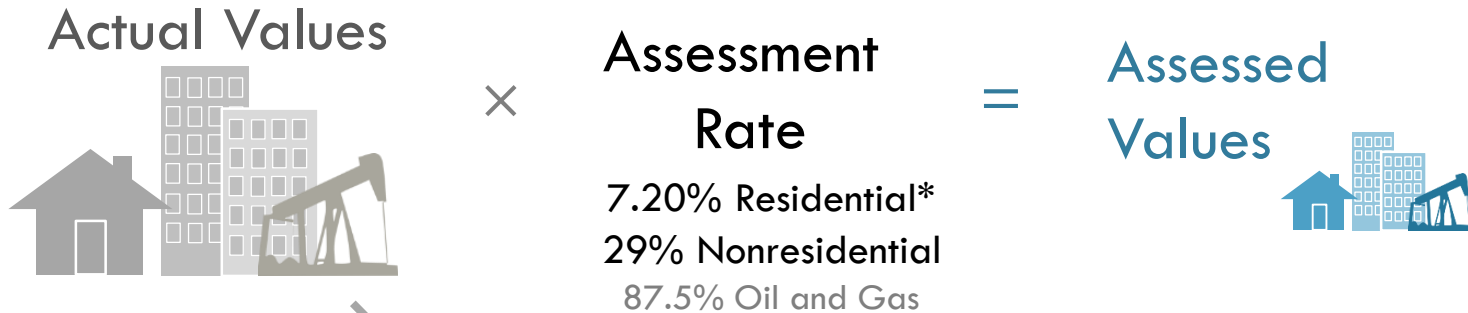


# Assessed Values in Colorado



\*2018 Residential Assessment Rate

# Assessed Values in Colorado



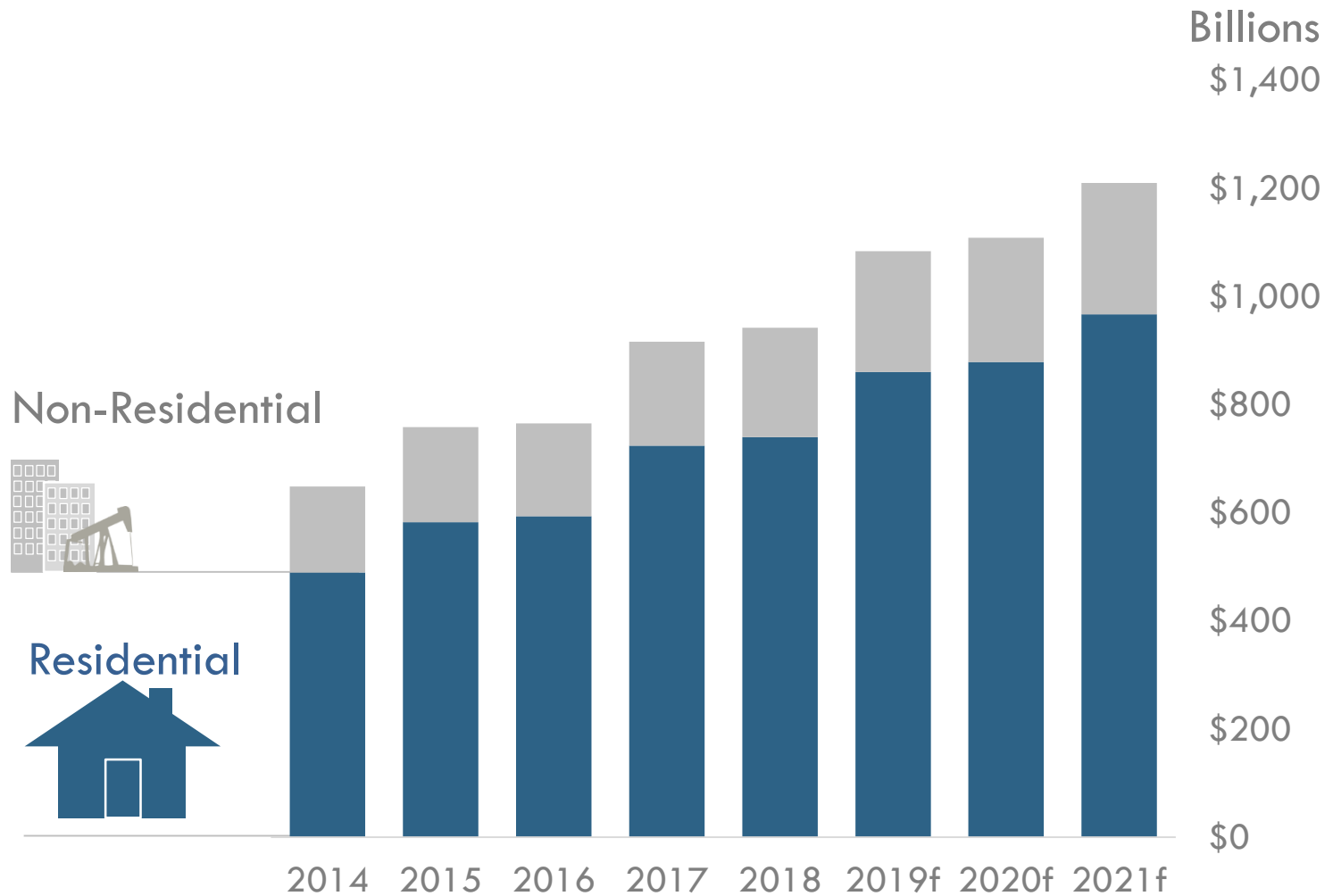
## Reassessment Cycle

Tax Year	Valuation Date	Assessment Cycle
2019	July 1, 2018	2019 Re-Assessment Cycle
2020	July 1, 2018	
2021	July 1, 2020	2021 Re-Assessment Cycle
2022	July 1, 2020	

\*2018 Residential Assessment Rate

# Actual (Market) Values

## The Colorado Property Tax Base

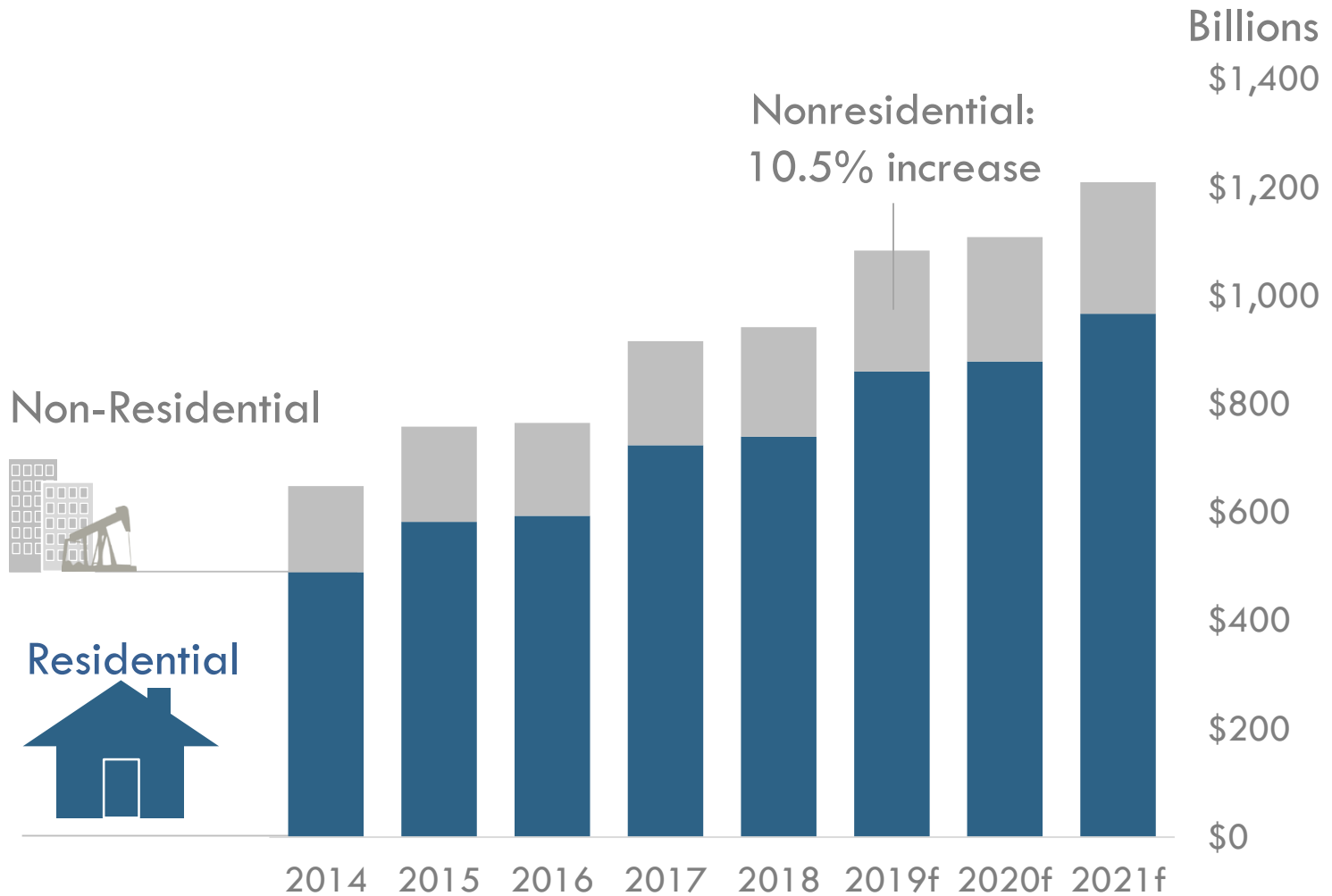


Source: Division of Property Taxation and Legislative Council Staff December 2018 forecast.

\*Calculated as assessed values divided by an assumed 29 percent assessment rate.

# Actual (Market) Values

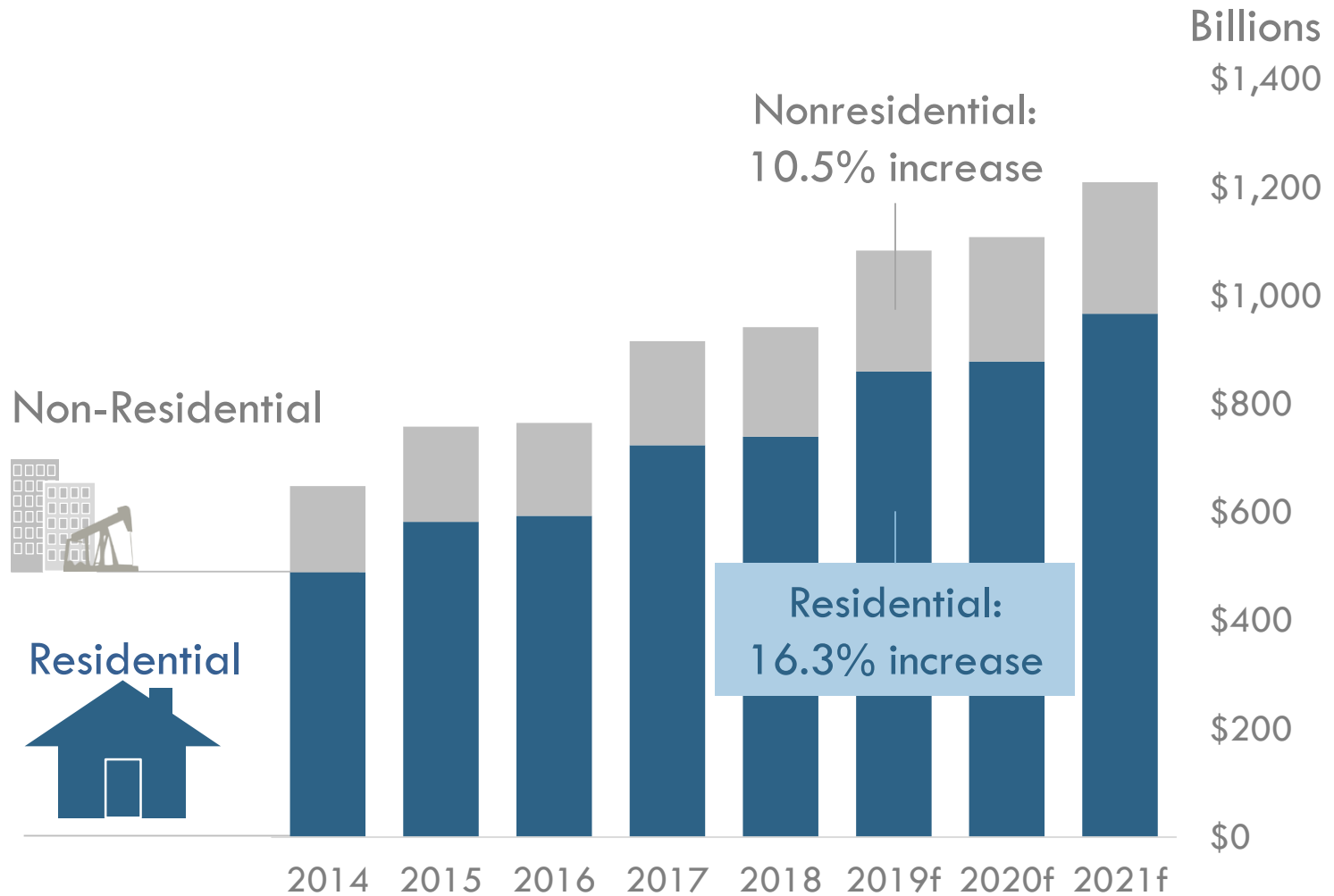
## The Colorado Property Tax Base



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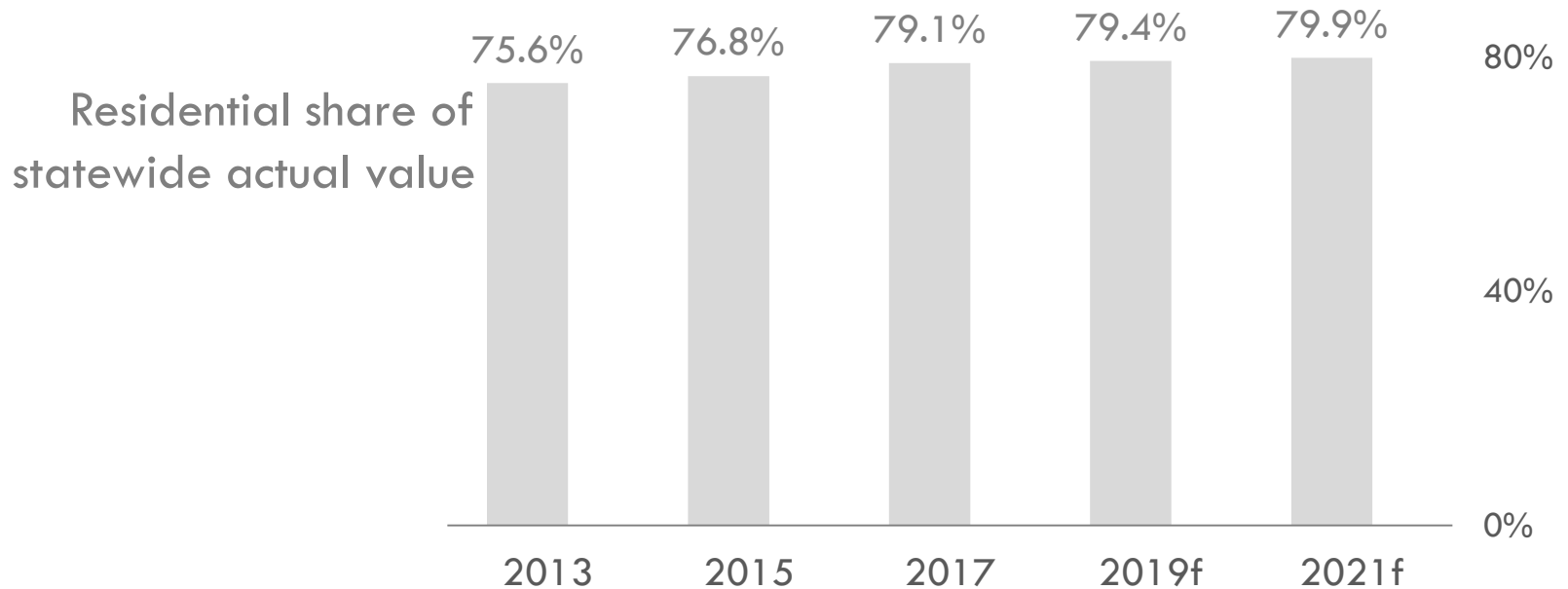
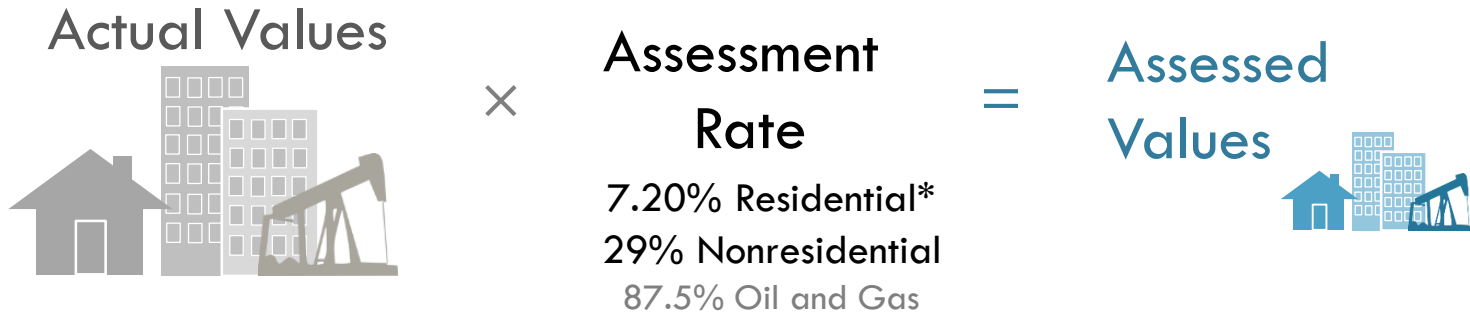
# Actual (Market) Values The Colorado Property Tax Base



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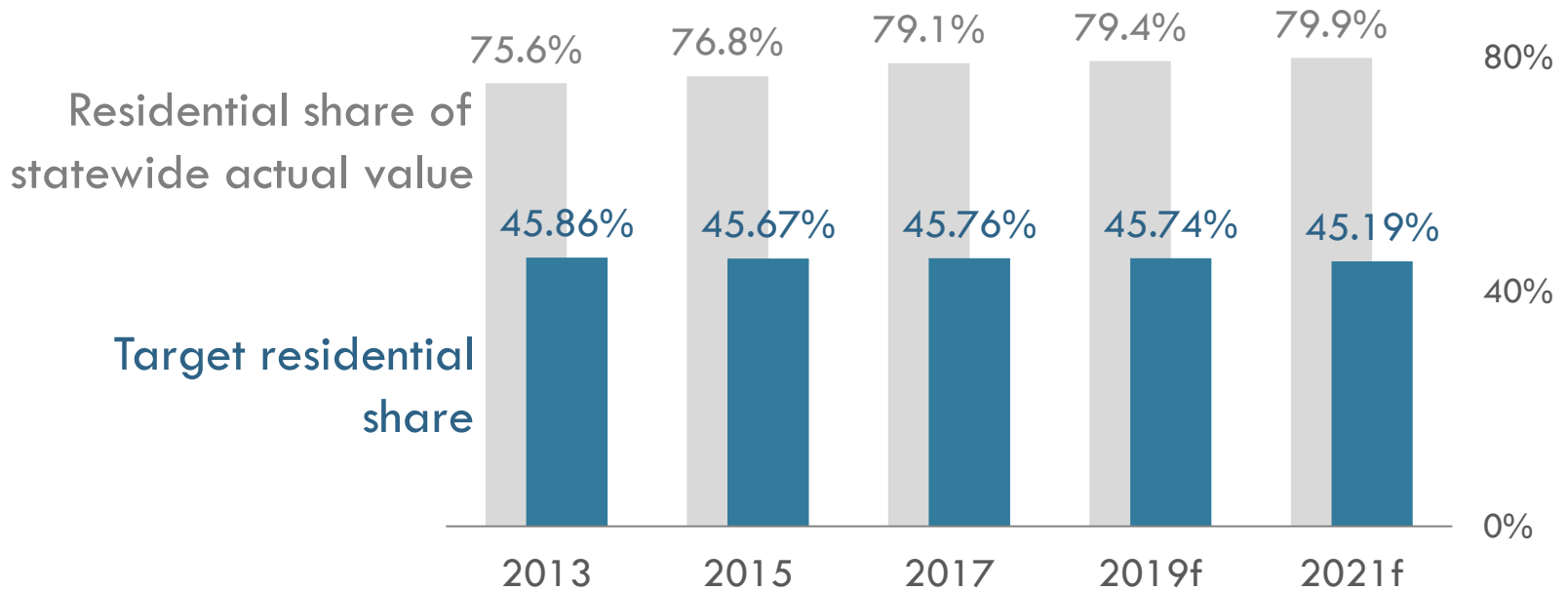
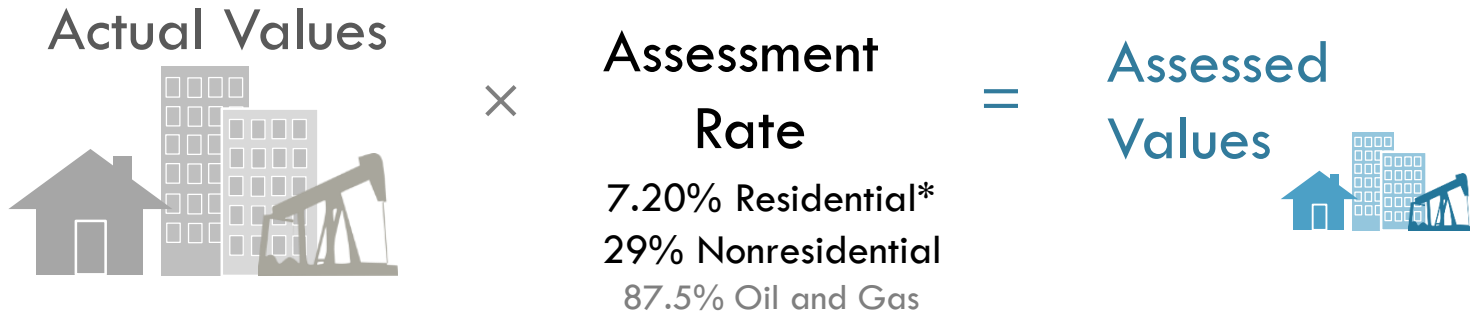
# Share of Residential Value



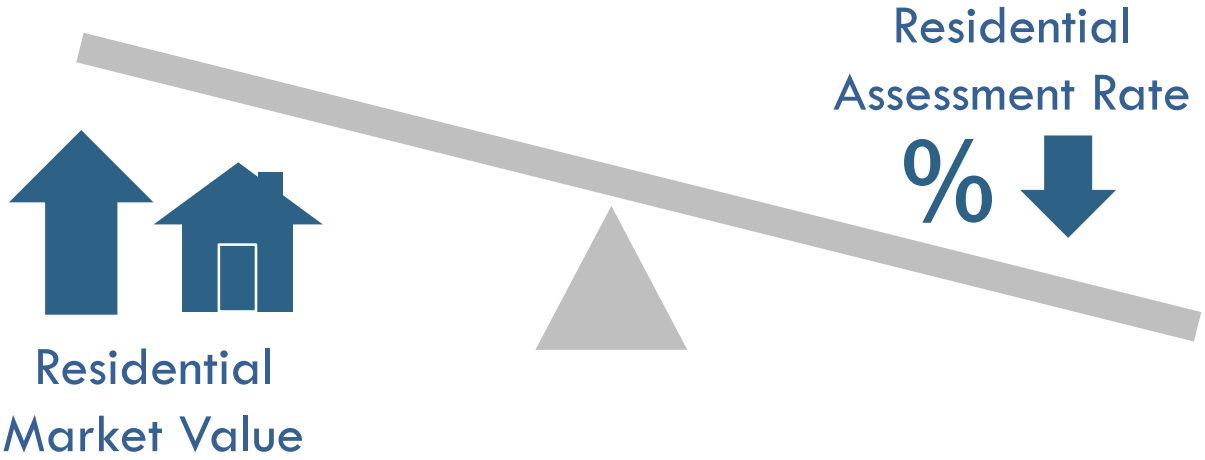
Source: Division of Property Taxation.  
\*2018 Residential Assessment Rate



# Share of Residential Value

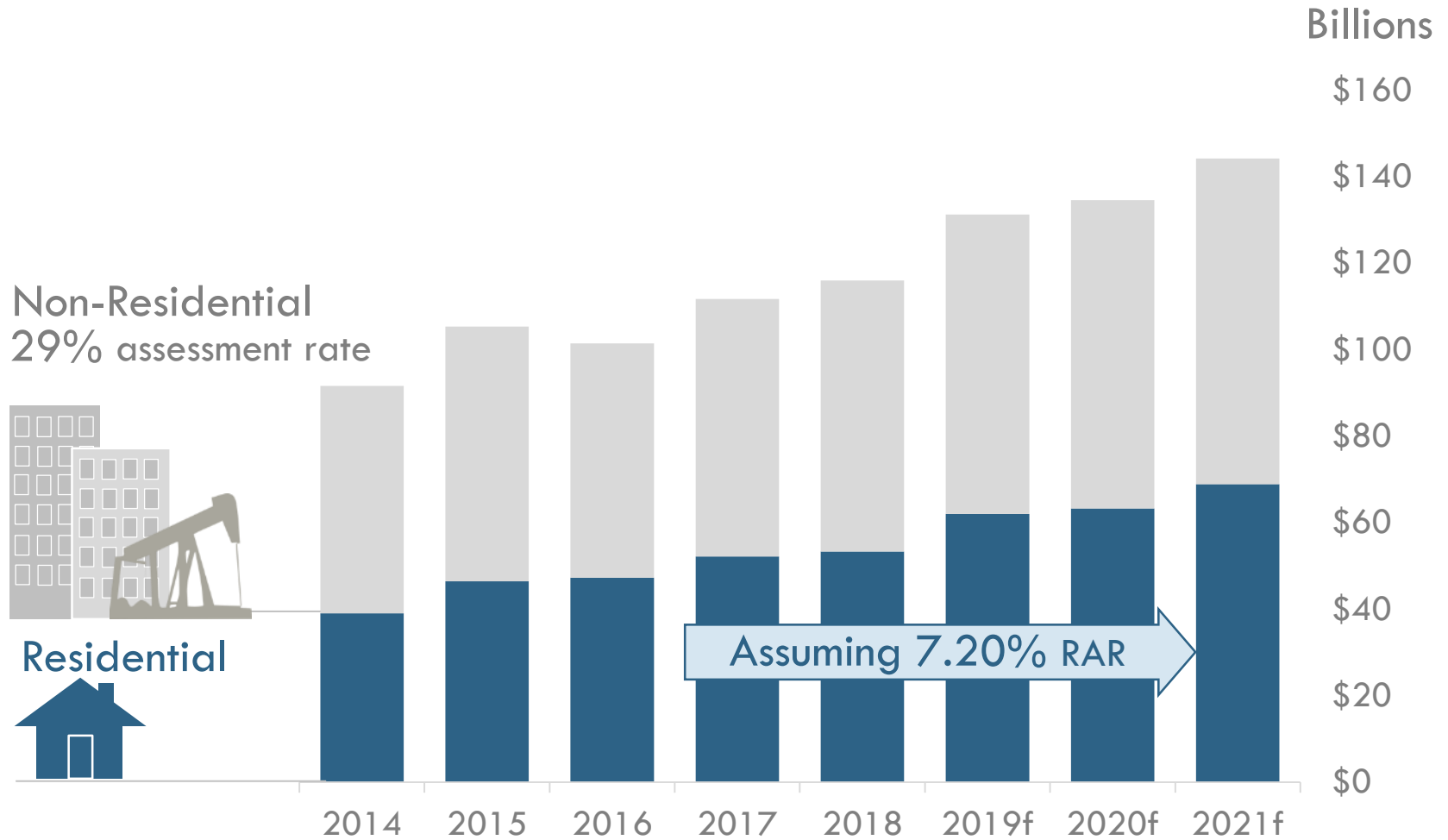


Source: Division of Property Taxation.  
\*2018 Residential Assessment Rate



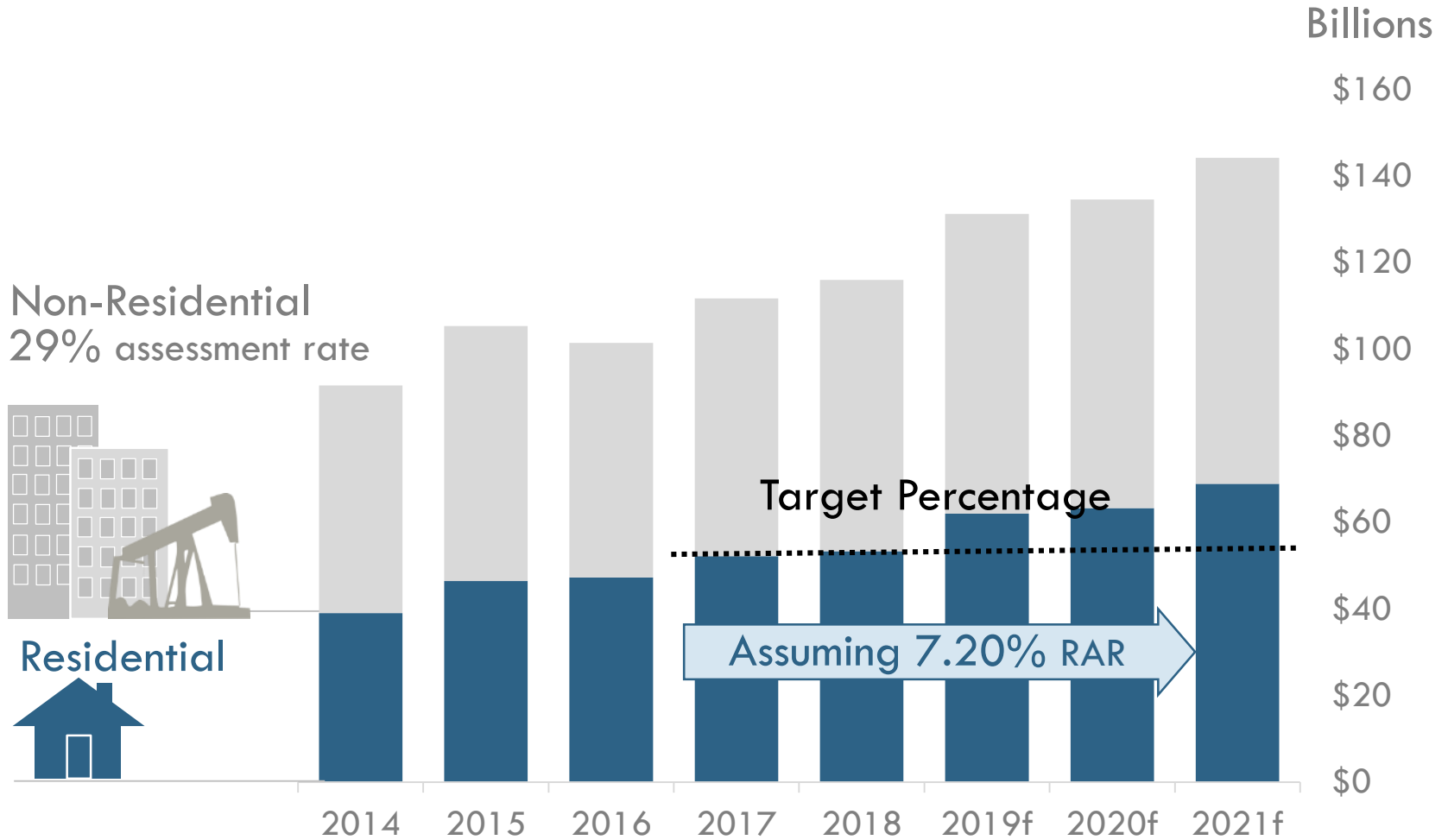
# Assessed Values

Actual Values × Assessment Rate = Assessed Values



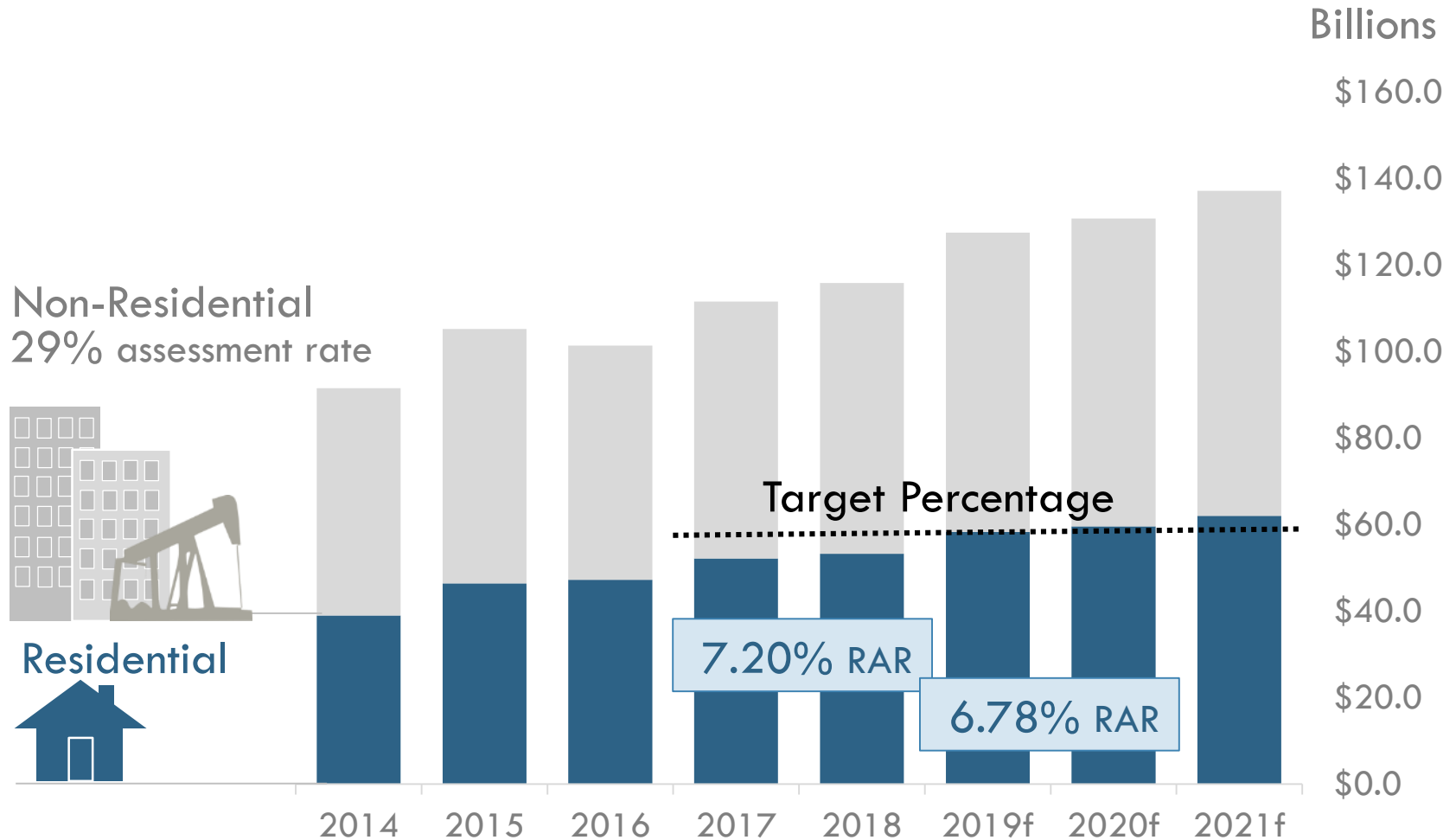
# Assessed Values

$$\text{Actual Values} \times \text{Assessment Rate} = \text{Assessed Values}$$



# Assessed Values

Actual Values × Assessment Rate = Assessed Values



2019 RAR =

**6.11%**

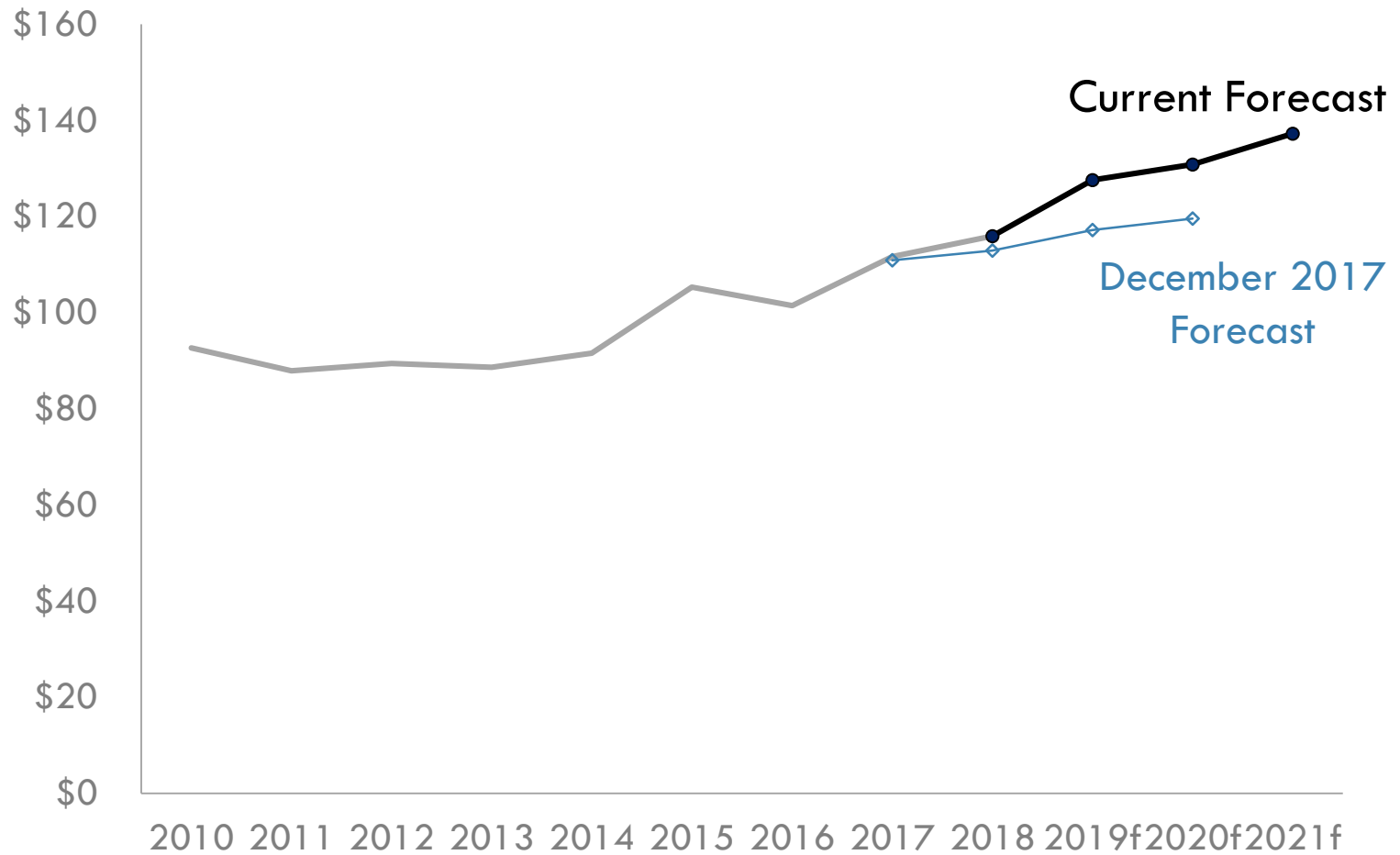
2019 RAR =

**6.78%**

2021 RAR =

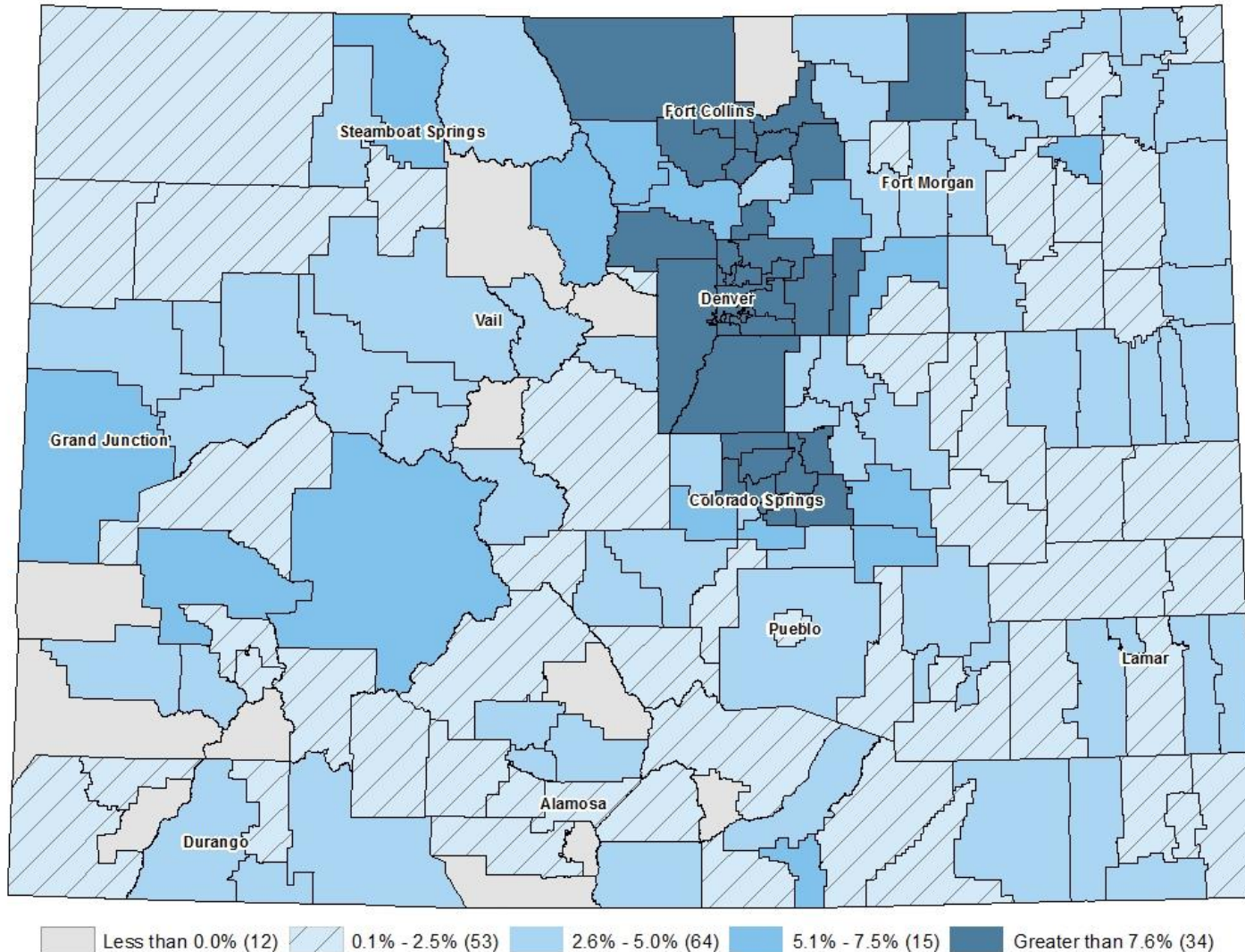
**6.41%**

# Assessed Value Forecast Comparison



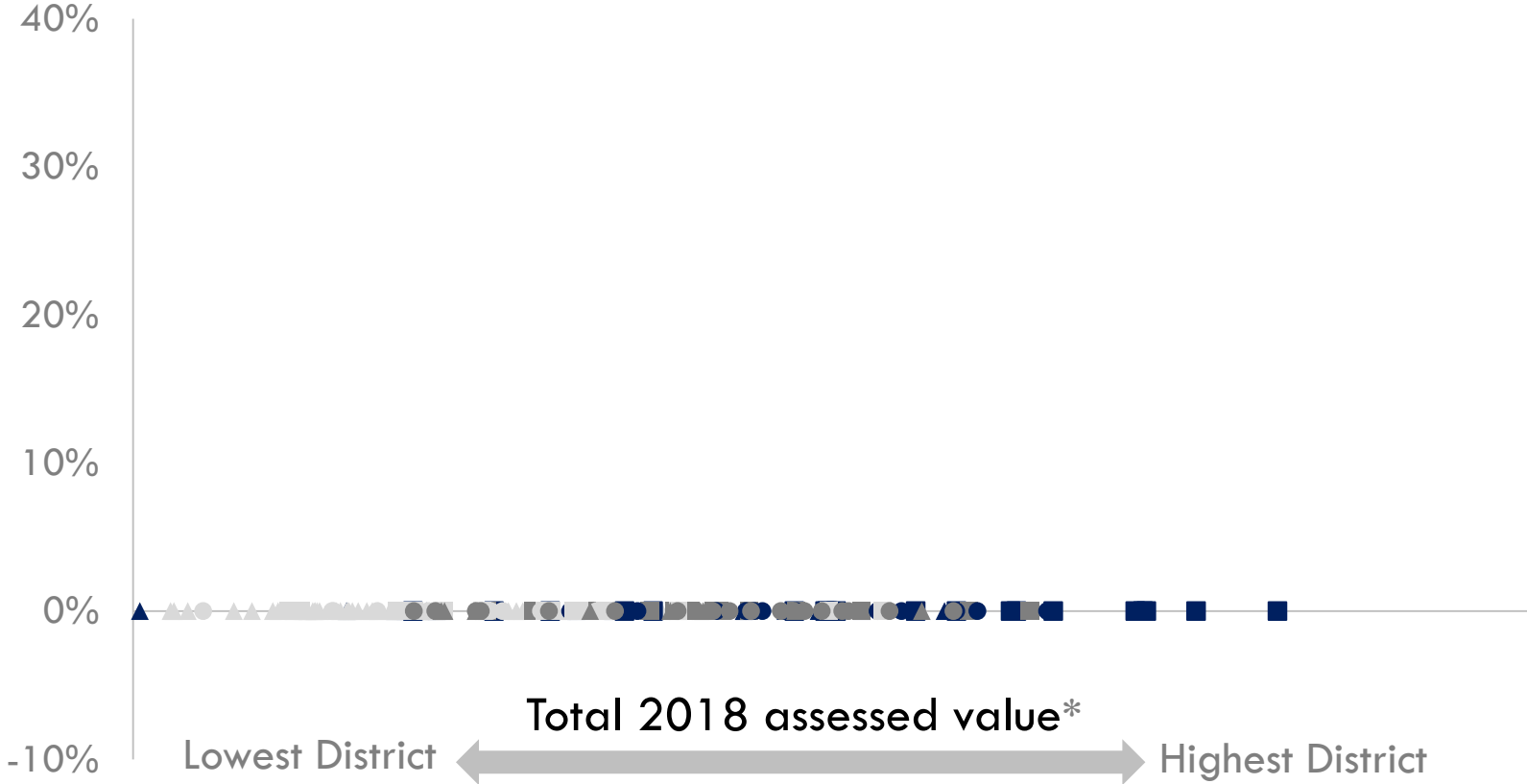


# Change in Total Assessed Values by School District 2018 to 2019



# 2018 Assessed Value

Percent Change in  
Assessed Value  
2018 to 2018

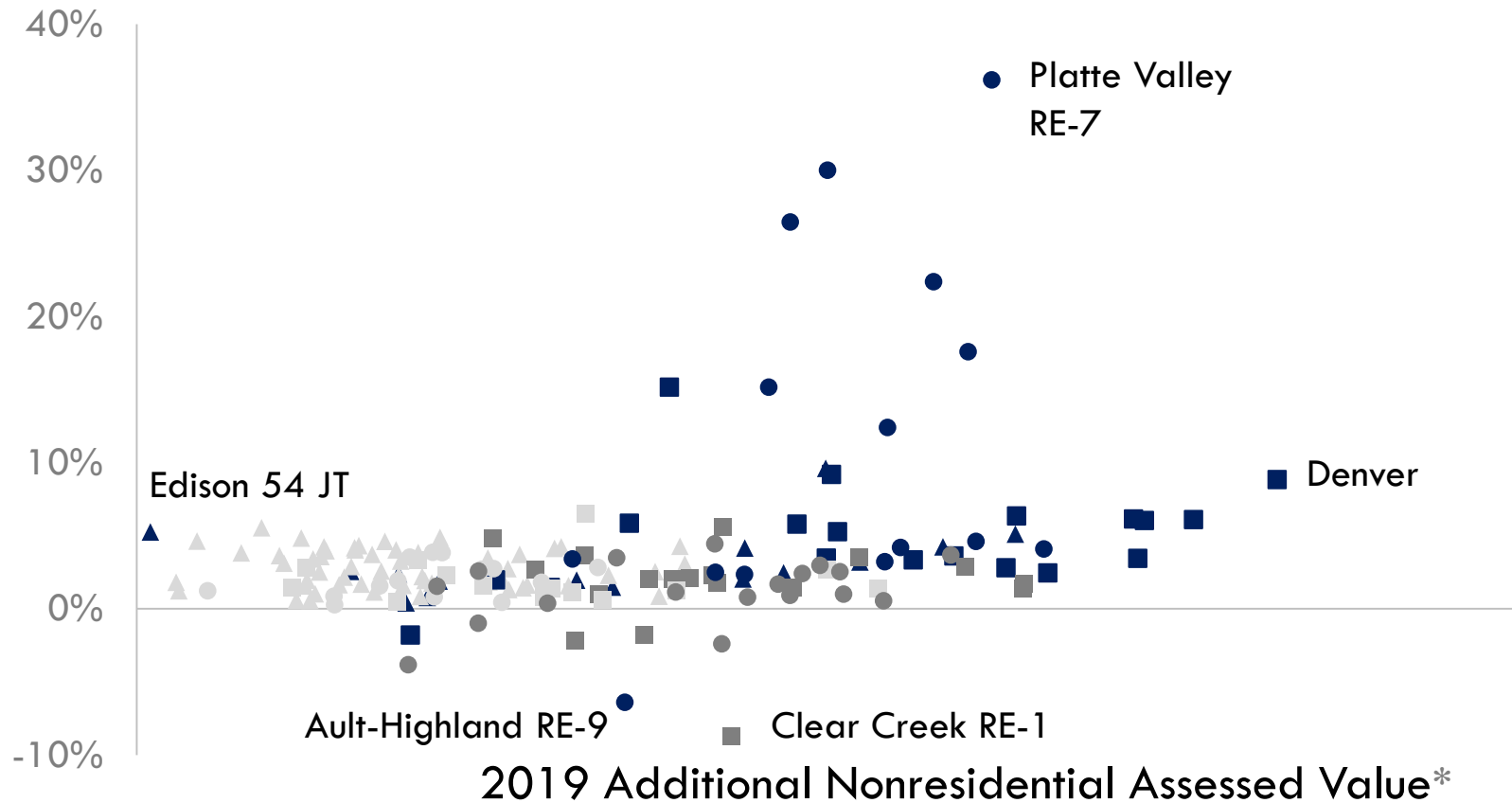


Source: Legislative Council Staff December 2018 forecast.

\*Log of assessed values across school districts.

# 2019 Additional Nonresidential Values

Percent Change in  
Assessed Value  
2018 to 2019

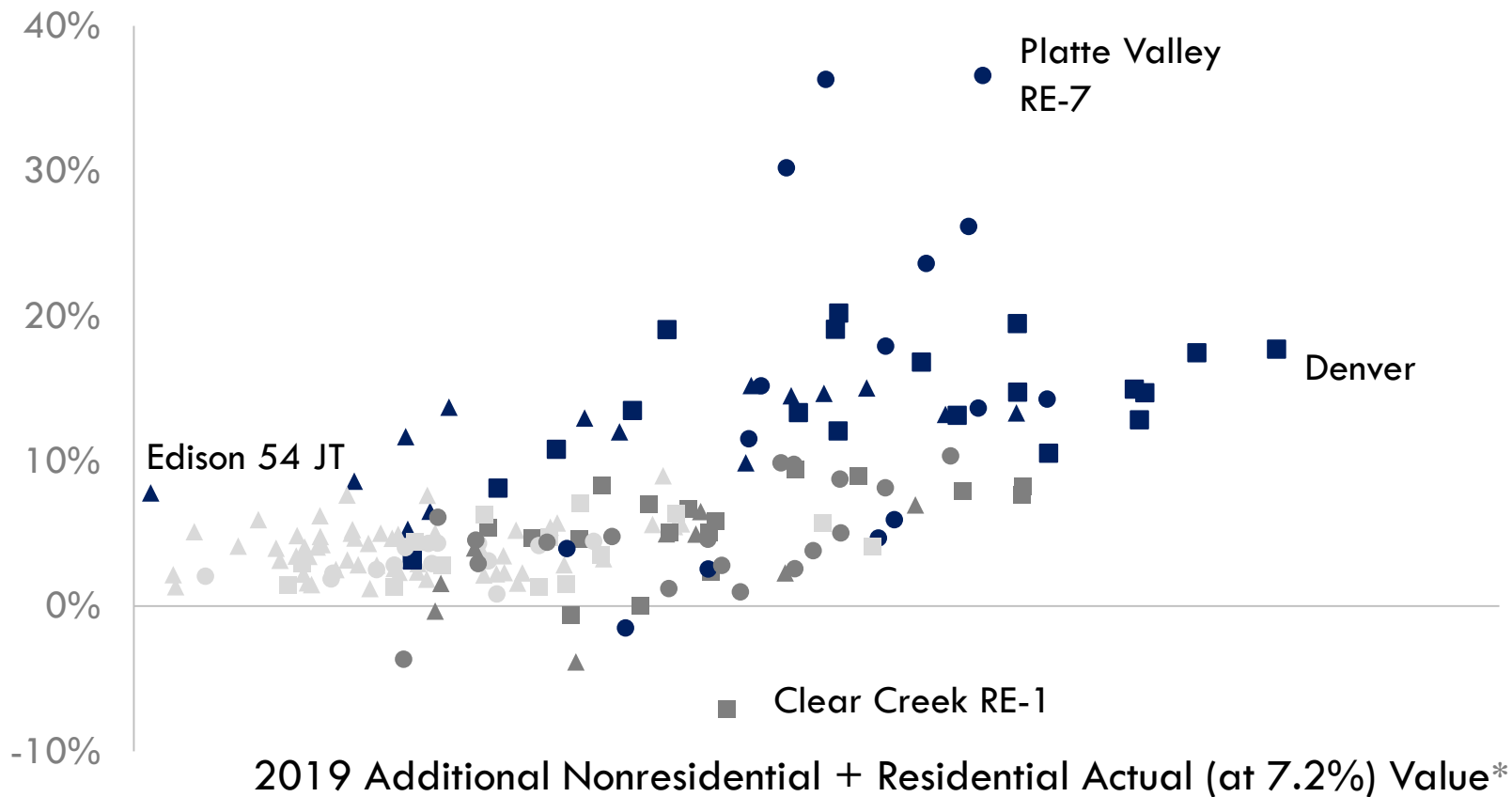


Source: Legislative Council Staff December 2018 forecast.

\*Log of assessed values across school districts.

# 2019 Additional Nonresidential + Residential Actual Value at 7.2%

Percent Change in  
Assessed Value  
2018 to 2019



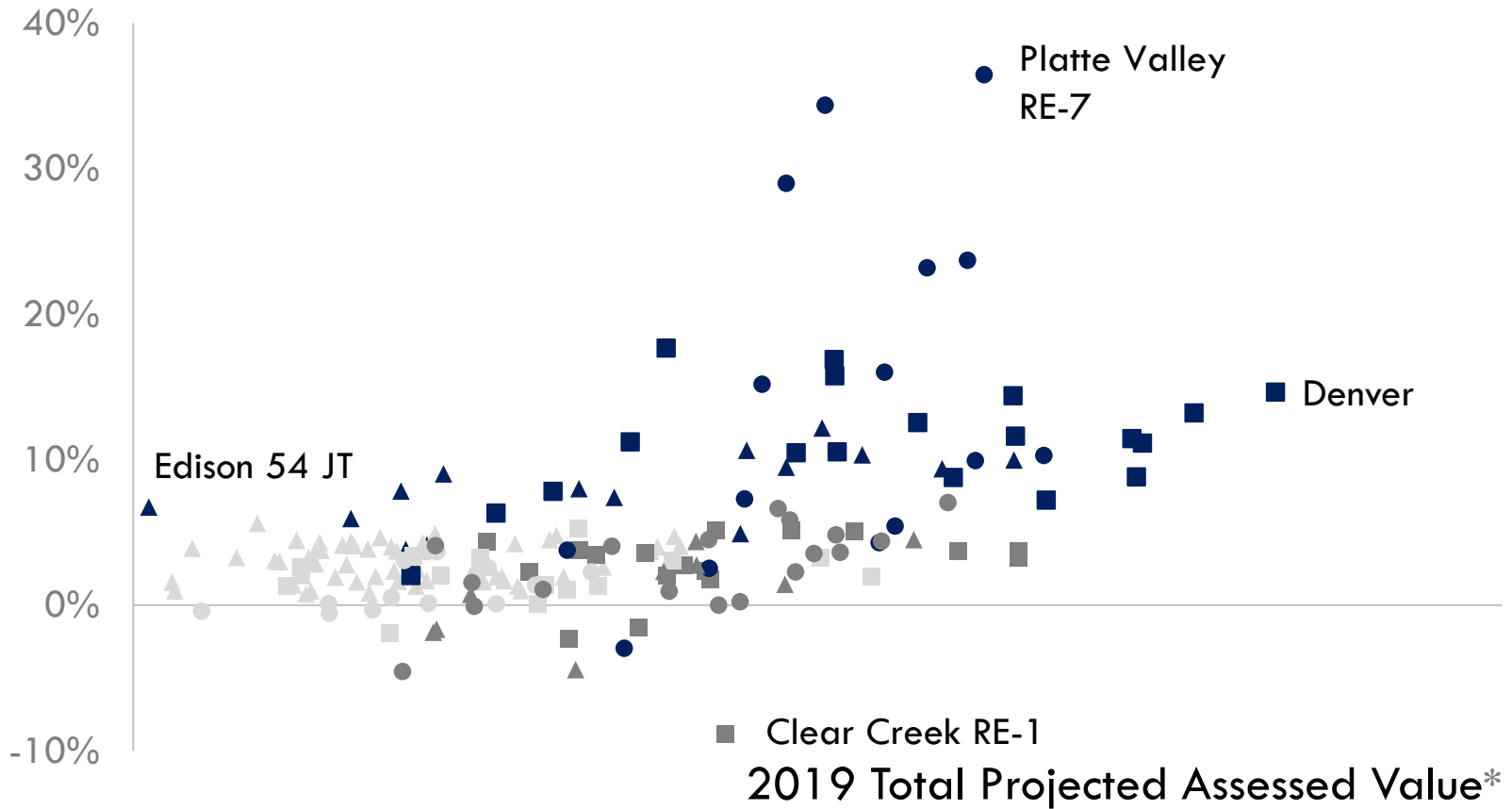
Source: Legislative Council Staff December 2018 forecast.

\*Log of assessed values across school districts.

# 2019 Assessed Value

New Nonresidential + Residential Actual Value at 6.78%

Percent Change in  
Assessed Value  
2018 to 2019



Source: Legislative Council Staff December 2018 forecast.

\*Log of assessed values across school districts.

# School Finance Outlook



# Change in Expectations for FY 2018-19 School Finance Funding

Dollars in Millions

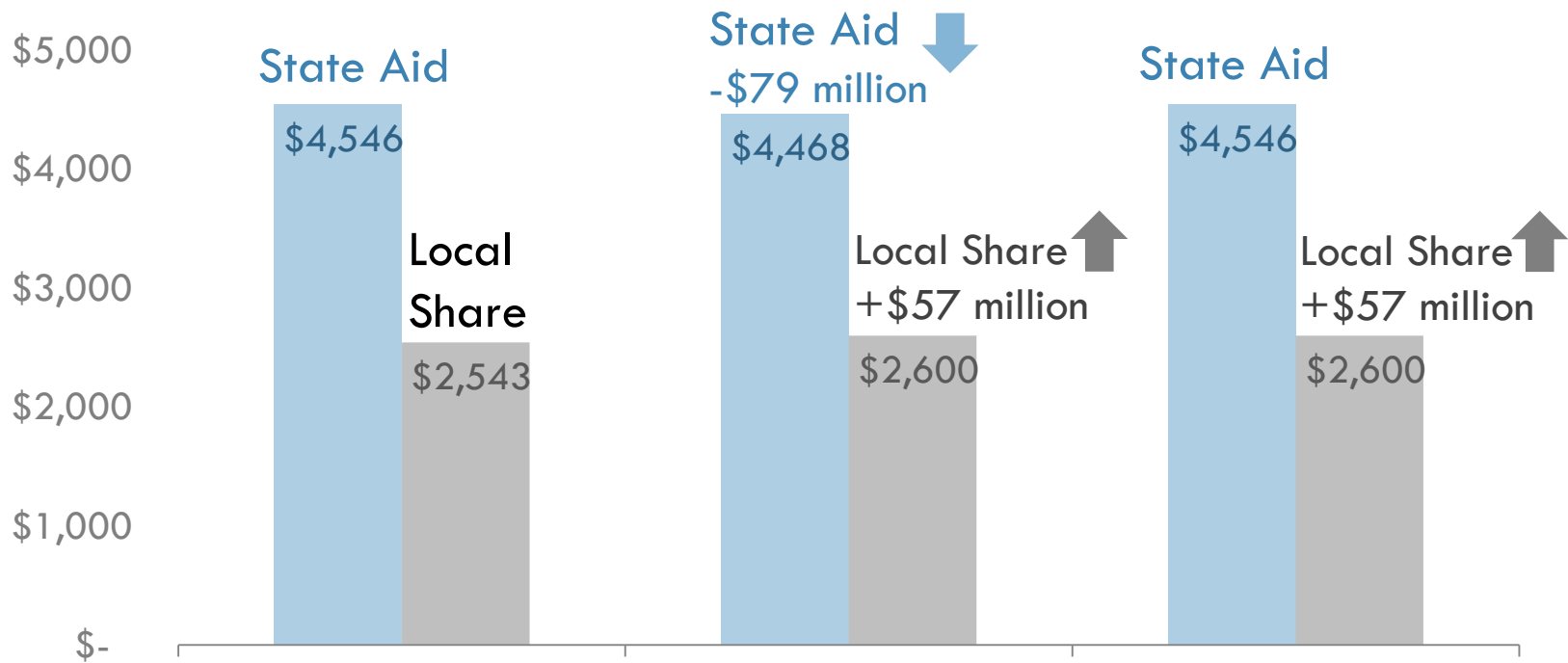
**Current Law  
Appropriation**

**December 2018 Expectations  
The General Assembly's Choices Range From:**

**BS Factor: \$672 million**

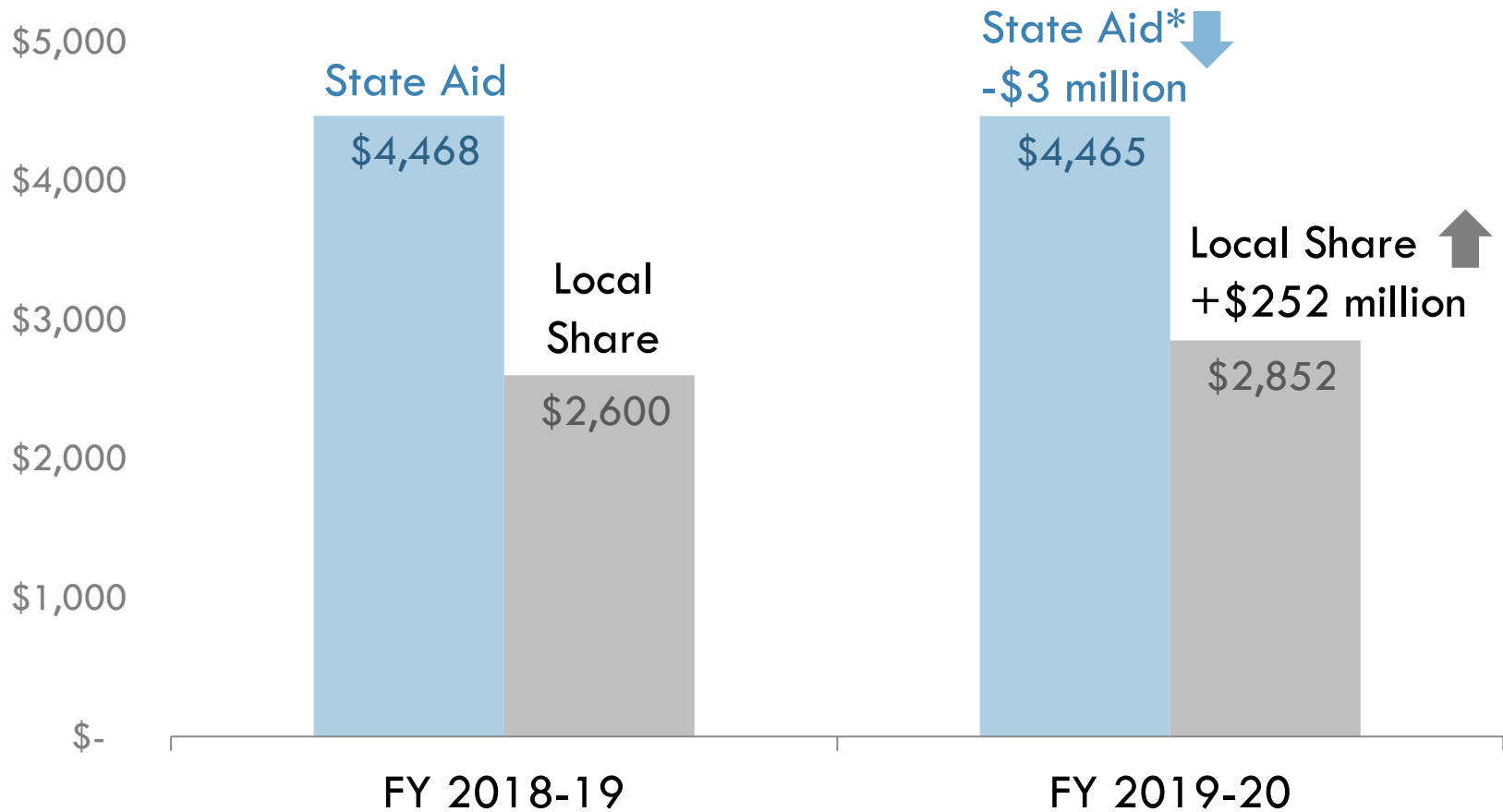
**Hold at \$672 million**

**Reduce to \$593 million**



# Year-over-Year Change in School Finance Funding FY 2018-19 to FY 2019-20

Dollars in Millions



Source: Legislative Council Staff December 2018 forecast.

\*Assumes a constant Budget Stabilization Factor.



# Implications for Balancing General Fund (GF) and State Education Fund (SEF) Contributions in 2019-20

- \$79M from 2018-19; \$3M drop in state aid requirement in 2019-20 year-over-year leaves many options available.
- Reducing 2018-19 SEF spending by \$79M implies \$75 million (1.9%) GF reduction in 19-20.
- Reducing BS Factor by \$79M implies \$83M (2.1%) GF increase in 2019-20.

# Adult Corrections Population Forecast

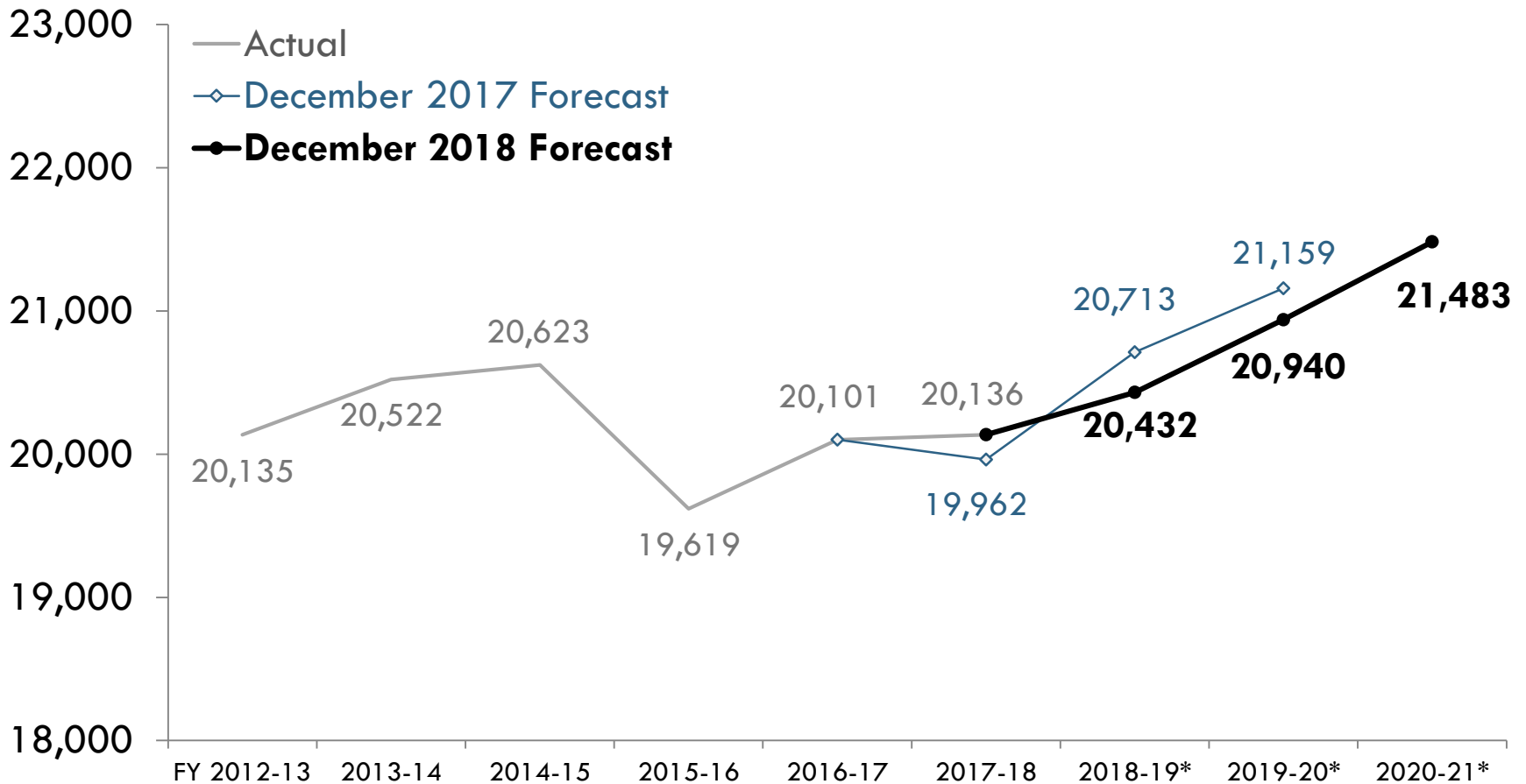


## The June 2018 prison population exceeded expectations

- Year-end FY 2017-18 population exceeded 2017 forecast
  - June 30, 2018, population was 20,136, **above** our forecast by 174 inmates
  - 89% of June 2018 error was attributable to **admissions**
- FY 2018-19 population is tracking below 2017 forecast
  - November 30, 2018, population was 20,069, **below** our forecast by 223 inmates
  - 133% of November 2018 error was attributable to **releases**

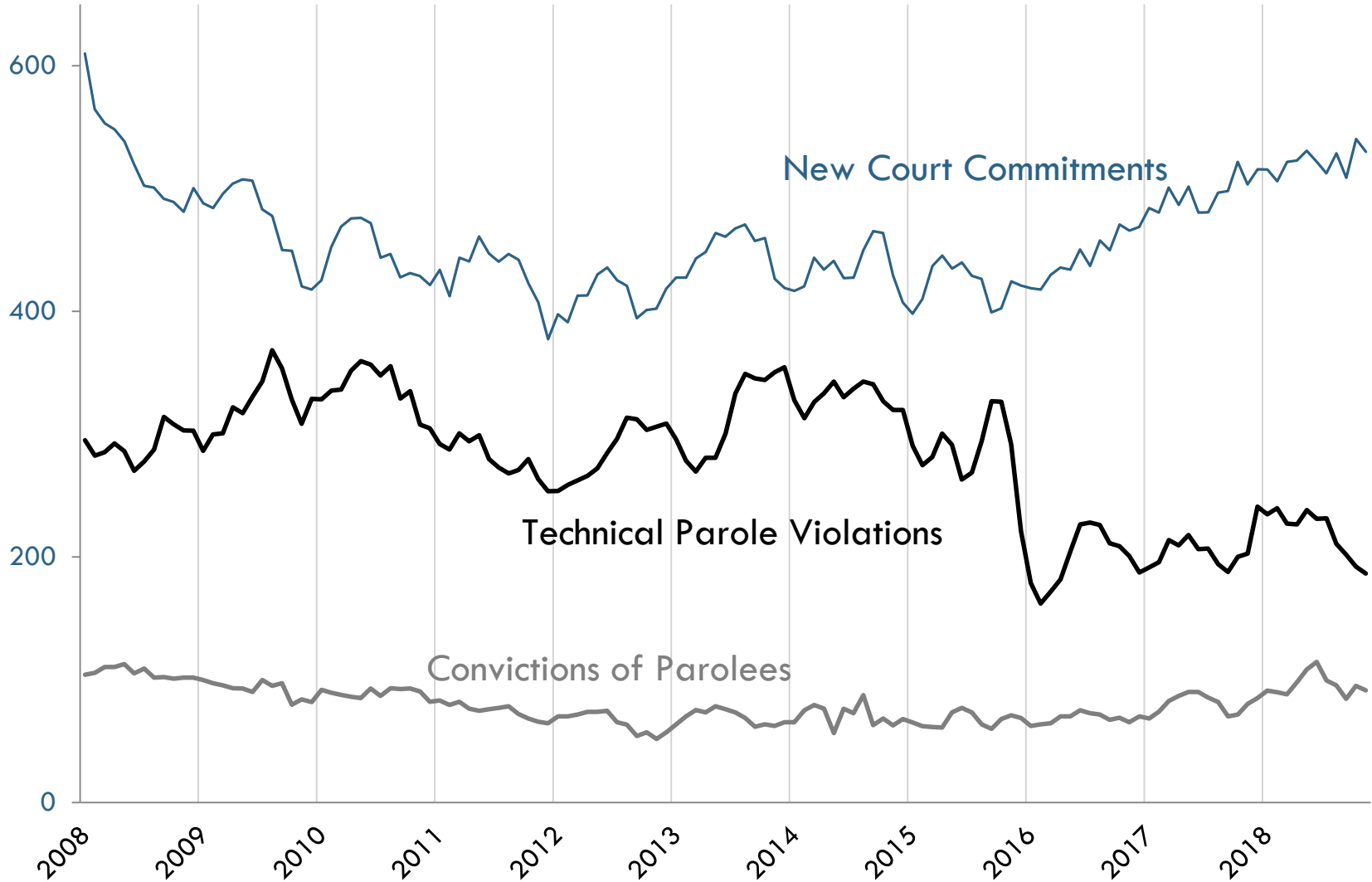
# Inmate population growing on new court commitments

Adult Inmate Population Forecasts as of June 30



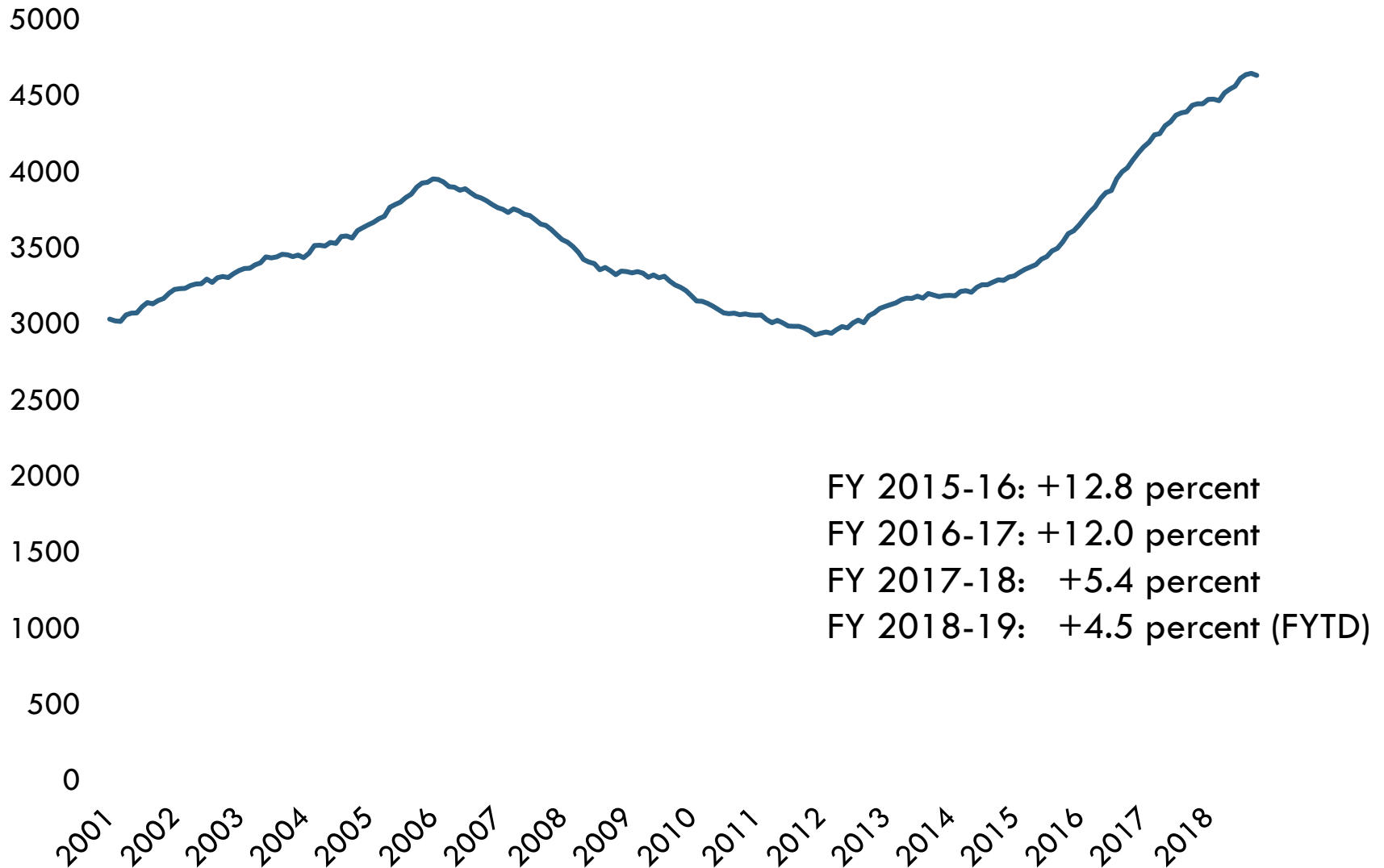
Source: Department of Corrections and \*Legislative Council Staff December 2018 forecast.

# Court commitments drove population growth in FY 2017-18

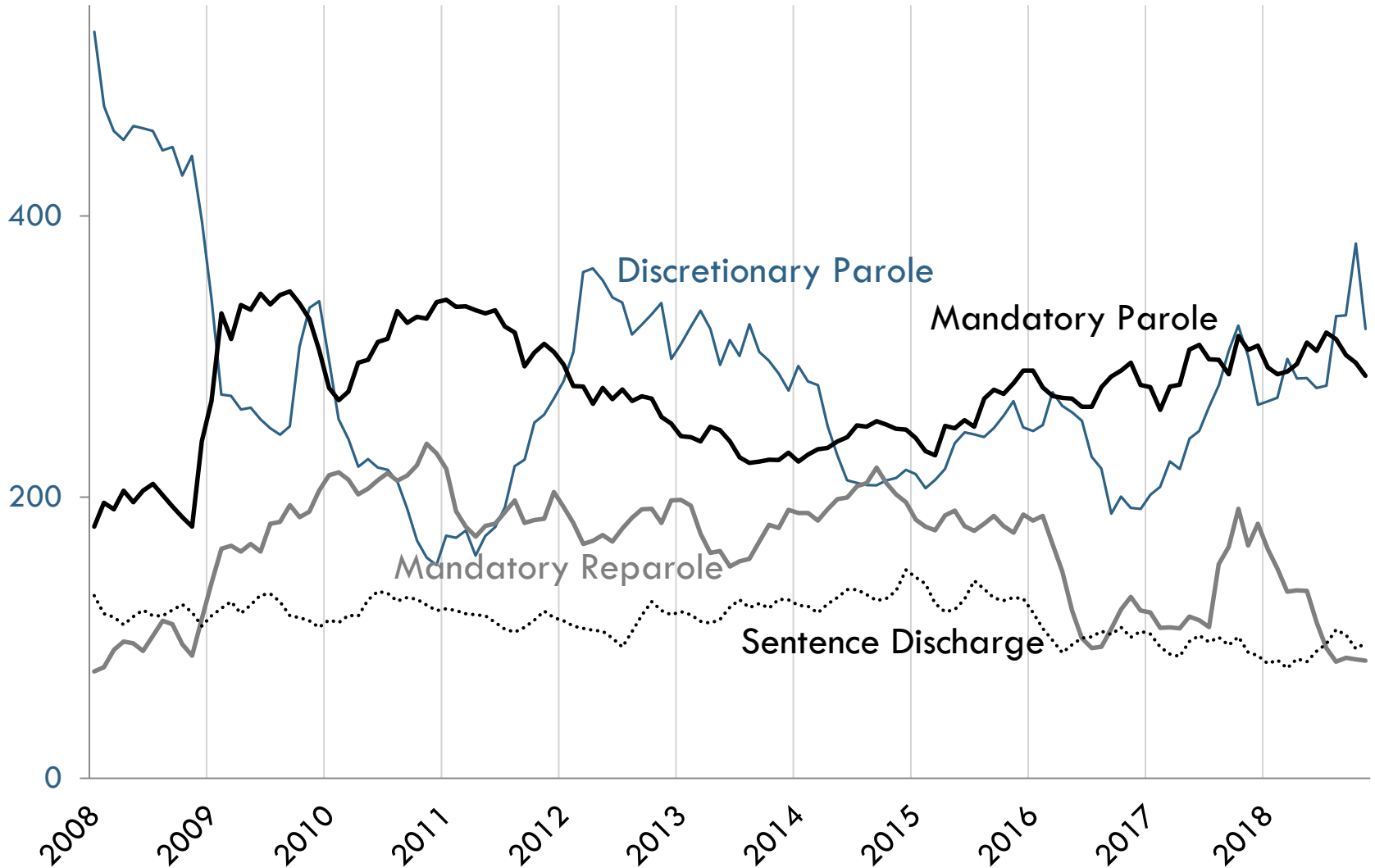


Source: Department of Corrections; 3-month moving average.

## However, felony case filings are slowing...



# Discretionary releases to parole spiked this fall



Source: Department of Corrections; 3-month moving average.

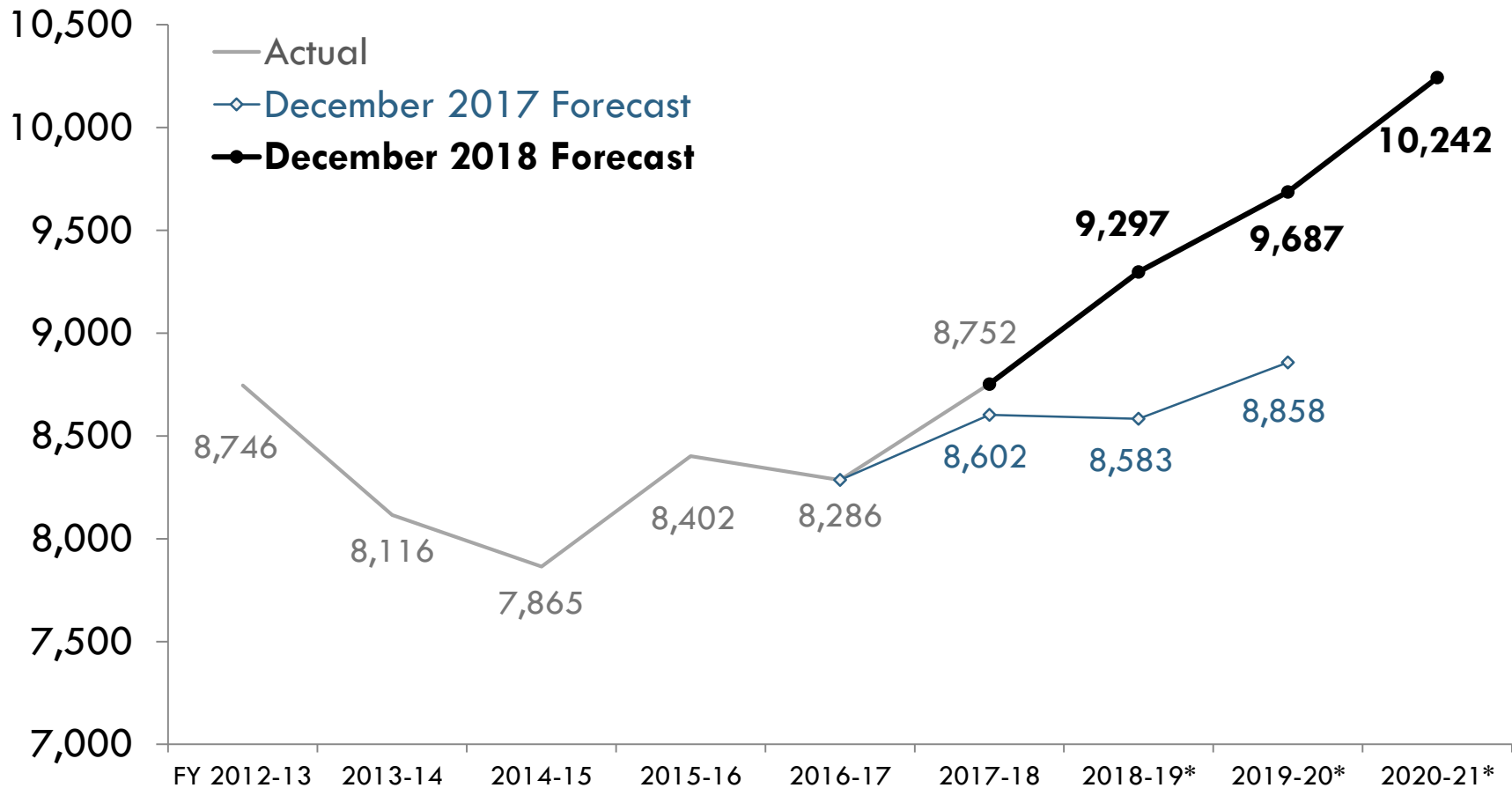
## Prison population will increase from present levels

- **New court commitments are expected to continue to increase**
  - Above-trend releases will alleviate some upward pressure on the prison population, but won't be sufficient to offset admissions
- **Parole population will increase correspondingly**
  - Releases have generated a significantly higher parole population than expected in last year's forecast



# Parole caseload growth projections revised upward

Adult Parole Caseload Forecasts as of June 30

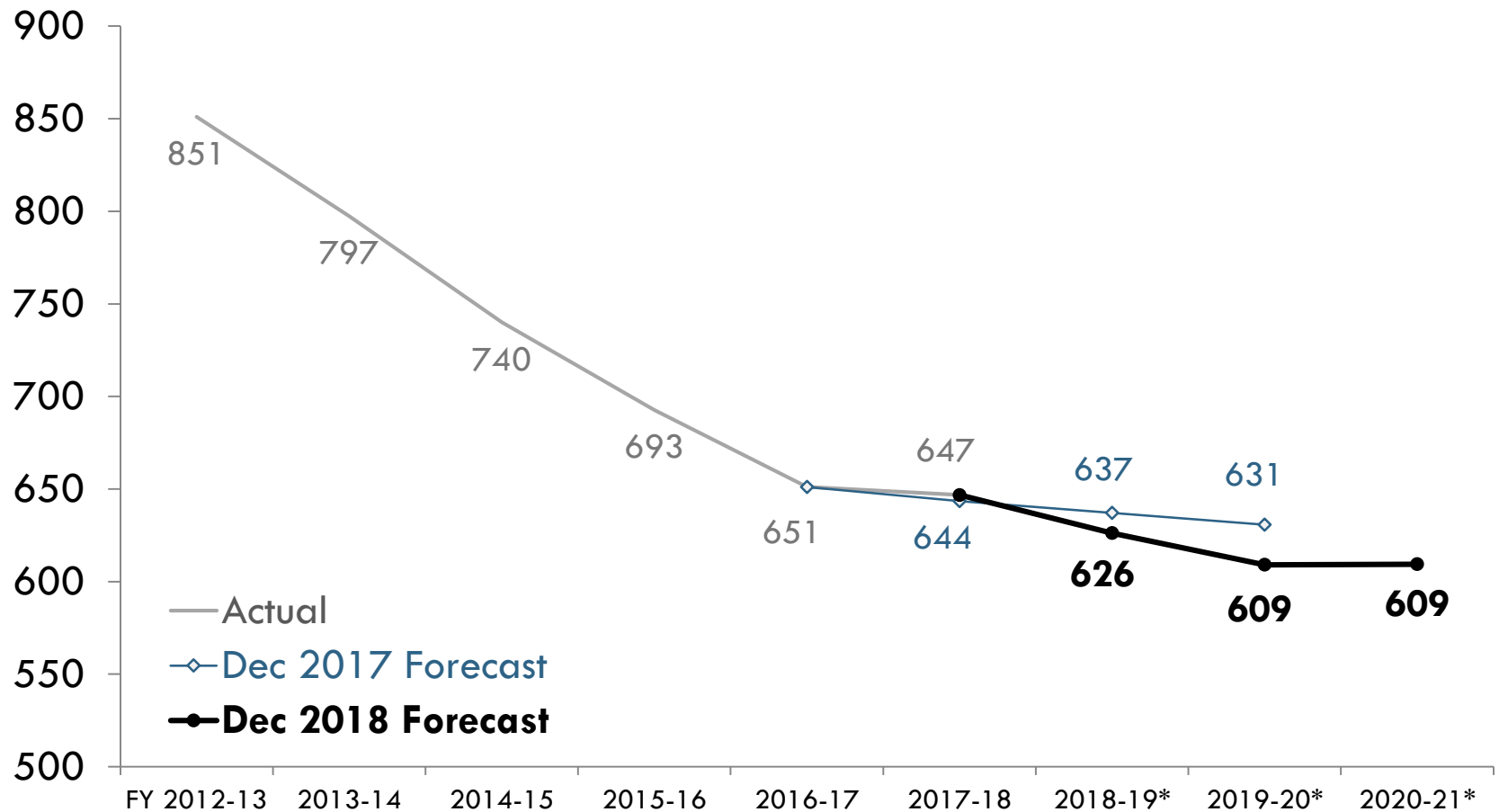


# Juvenile Corrections Population Forecast



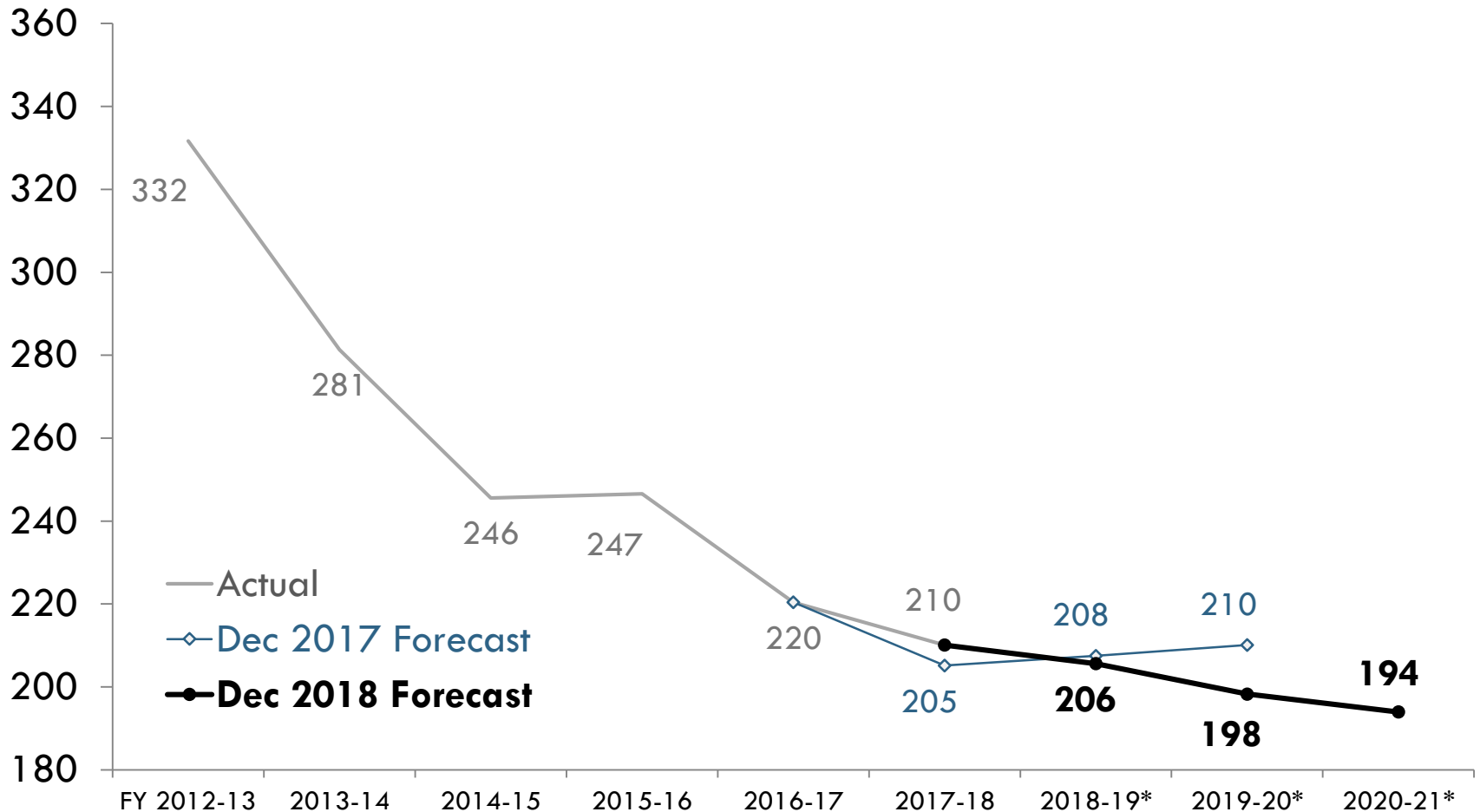
# DYS commitment population declining more slowly

Juvenile ADP **Commitment** Population Forecasts by Fiscal Year



# Falling commitments decreasing the parole population

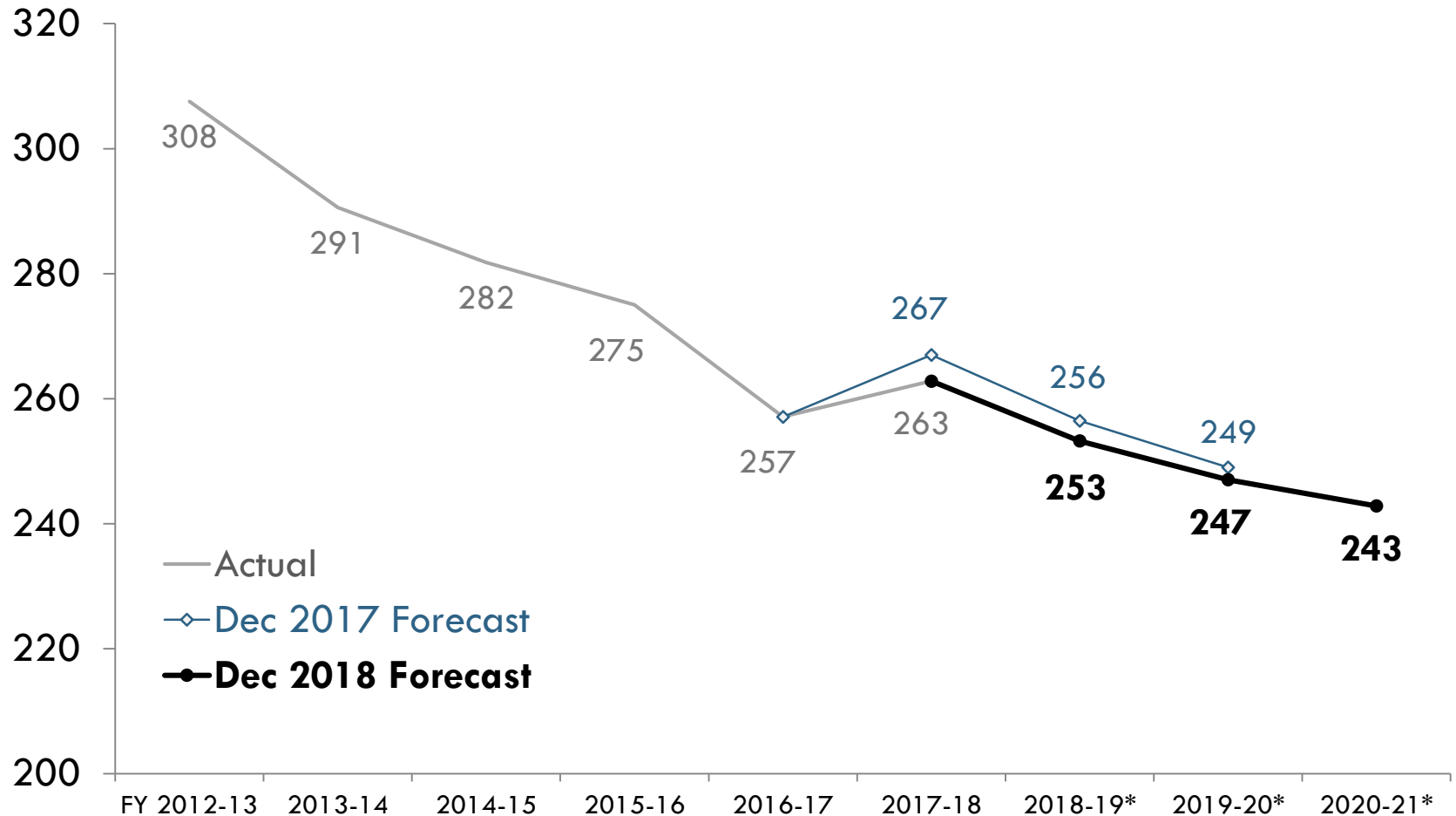
Juvenile ADP Parole Population Forecasts by Fiscal Year



Source: CDHS Division of Youth Services and \*Legislative Council Staff December 2018 forecast.

# DYS detention population expected to fall slightly

Juvenile ADP Detention Population Forecasts by Fiscal Year



# Questions?

**Kate Watkins**

Chief Economist • Legislative Council Staff  
kate.watkins@state.co.us • (303) 866-3446  
[www.leg.colorado.gov/lcs](http://www.leg.colorado.gov/lcs)

