



June 2021 | Legislative Council Staff

Economic & Revenue Forecast

Presentation to the Joint Budget Committee

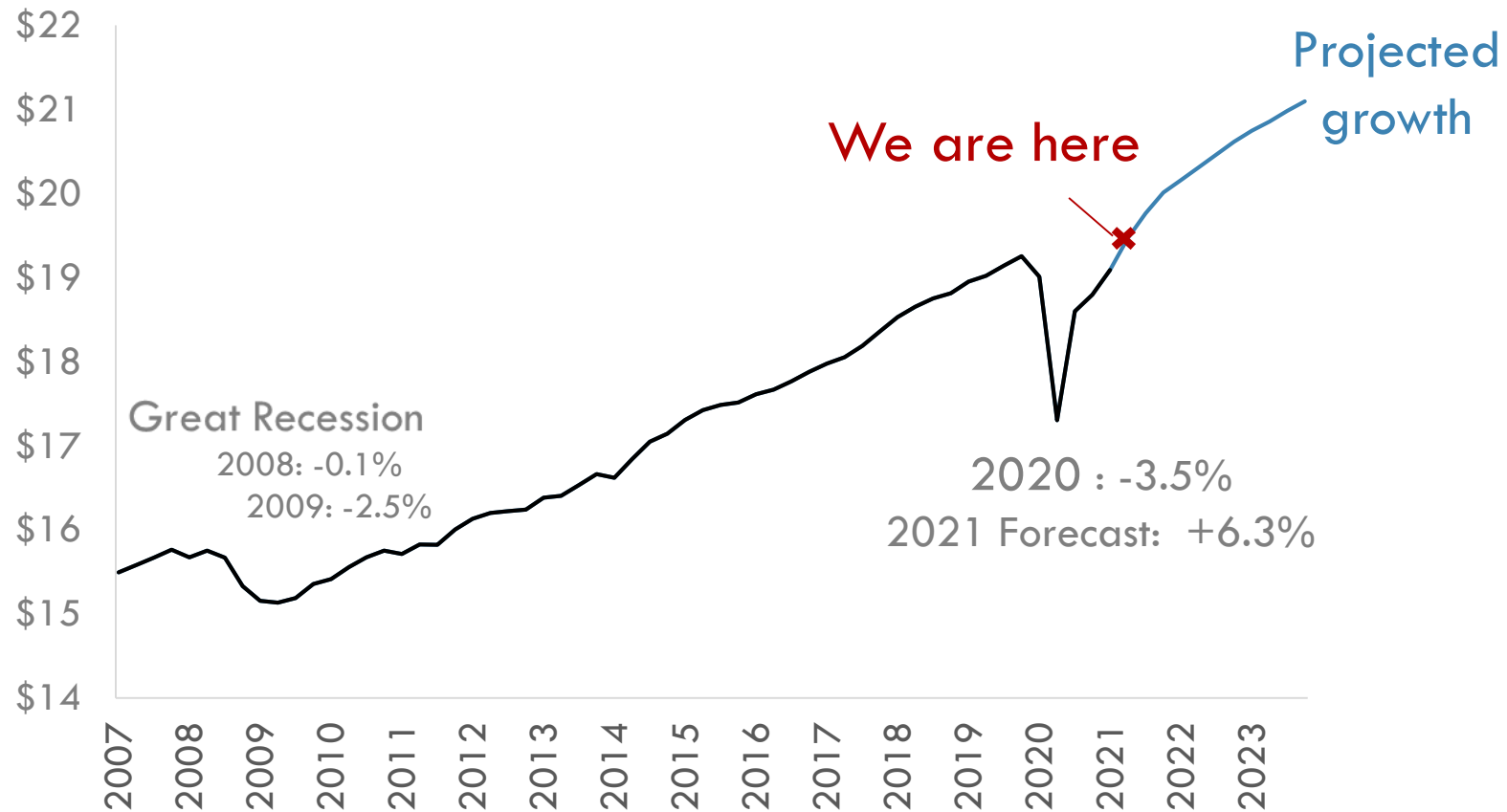
June 18, 2021

Economic Outlook



The economy continues to recover

Real U.S. Gross Domestic Product
Dollars in Trillions

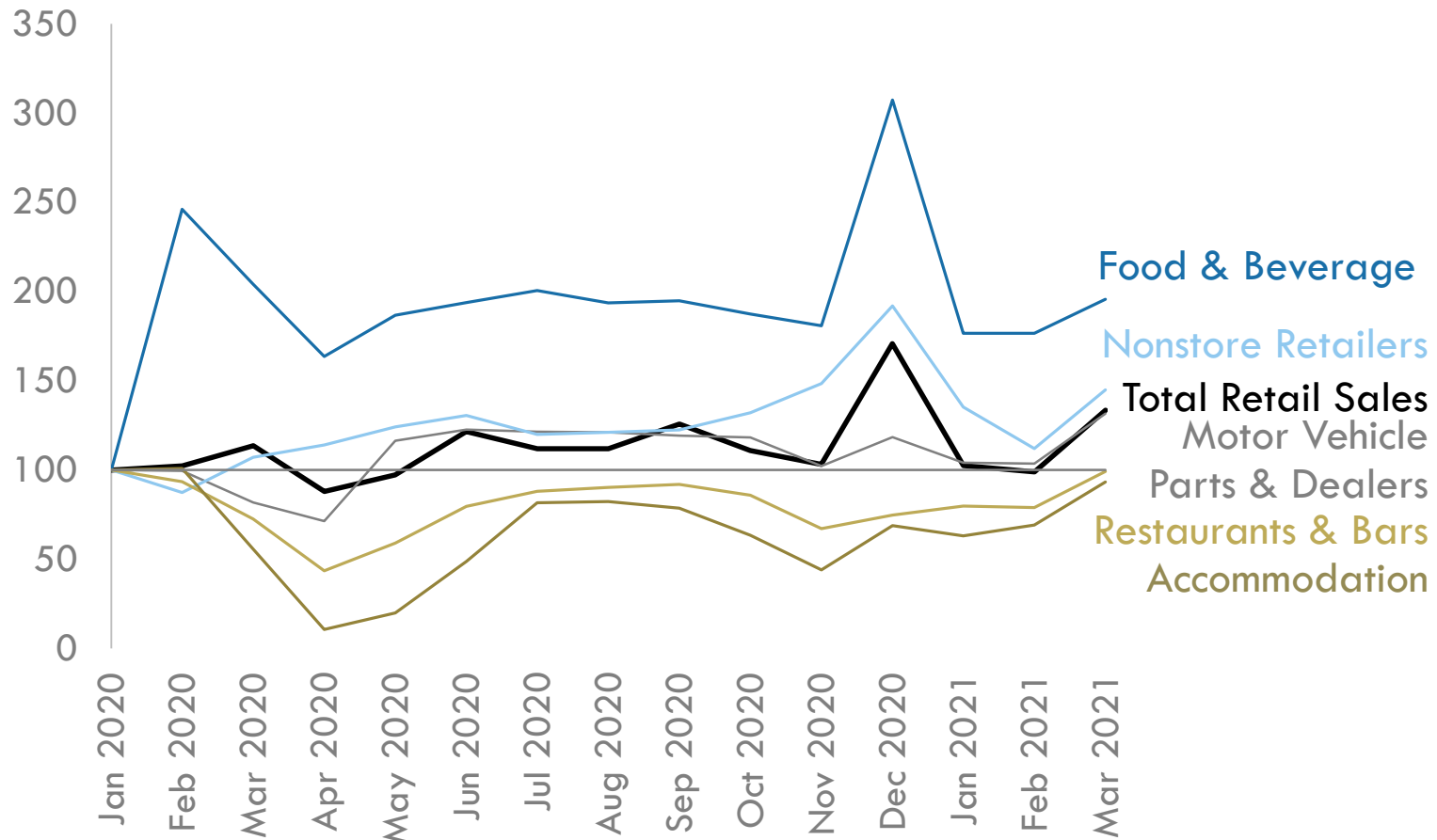


Source: U.S. Bureau of Economic Analysis and Legislative Council Staff June 2021 projections.
Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

Retail trade sales have surpassed pre-recession levels, leisure and hospitality sectors are catching up

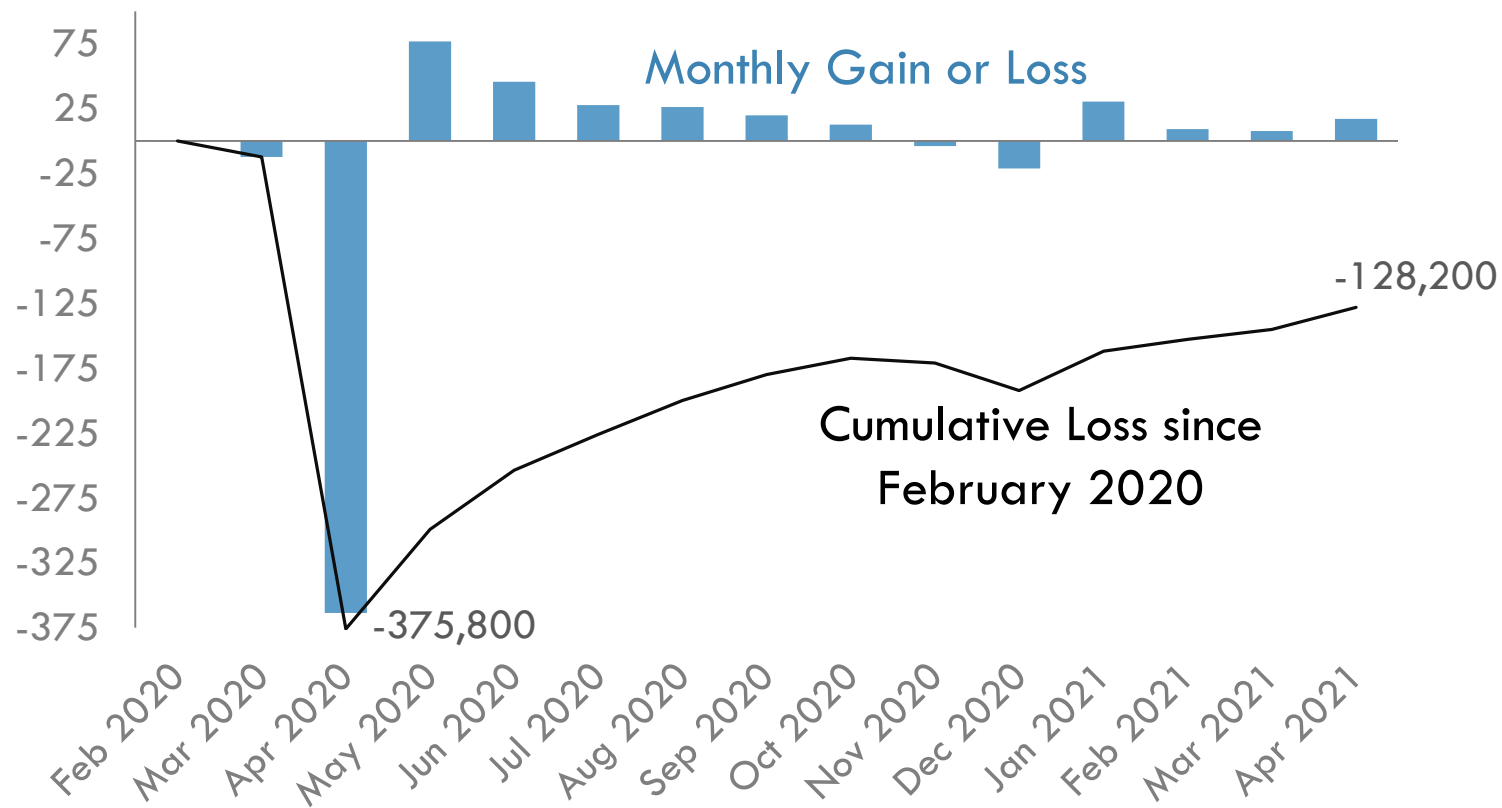
Colorado Retail Sales

Index January 2020 = 100



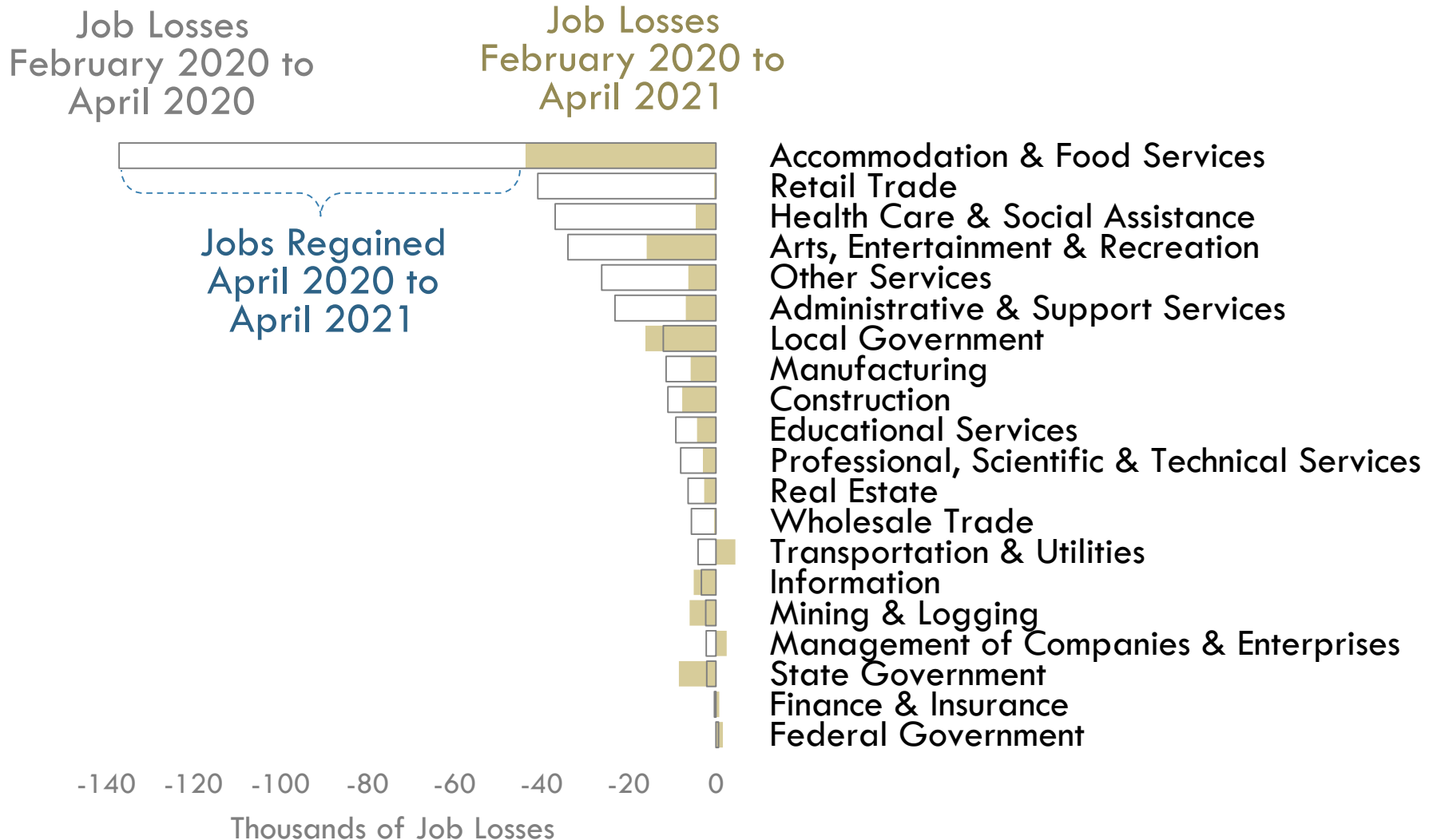
Colorado has regained 66 percent of jobs lost since the pandemic began, with an uneven recovery in 2021

Change in Colorado Employment
Thousands of Jobs



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

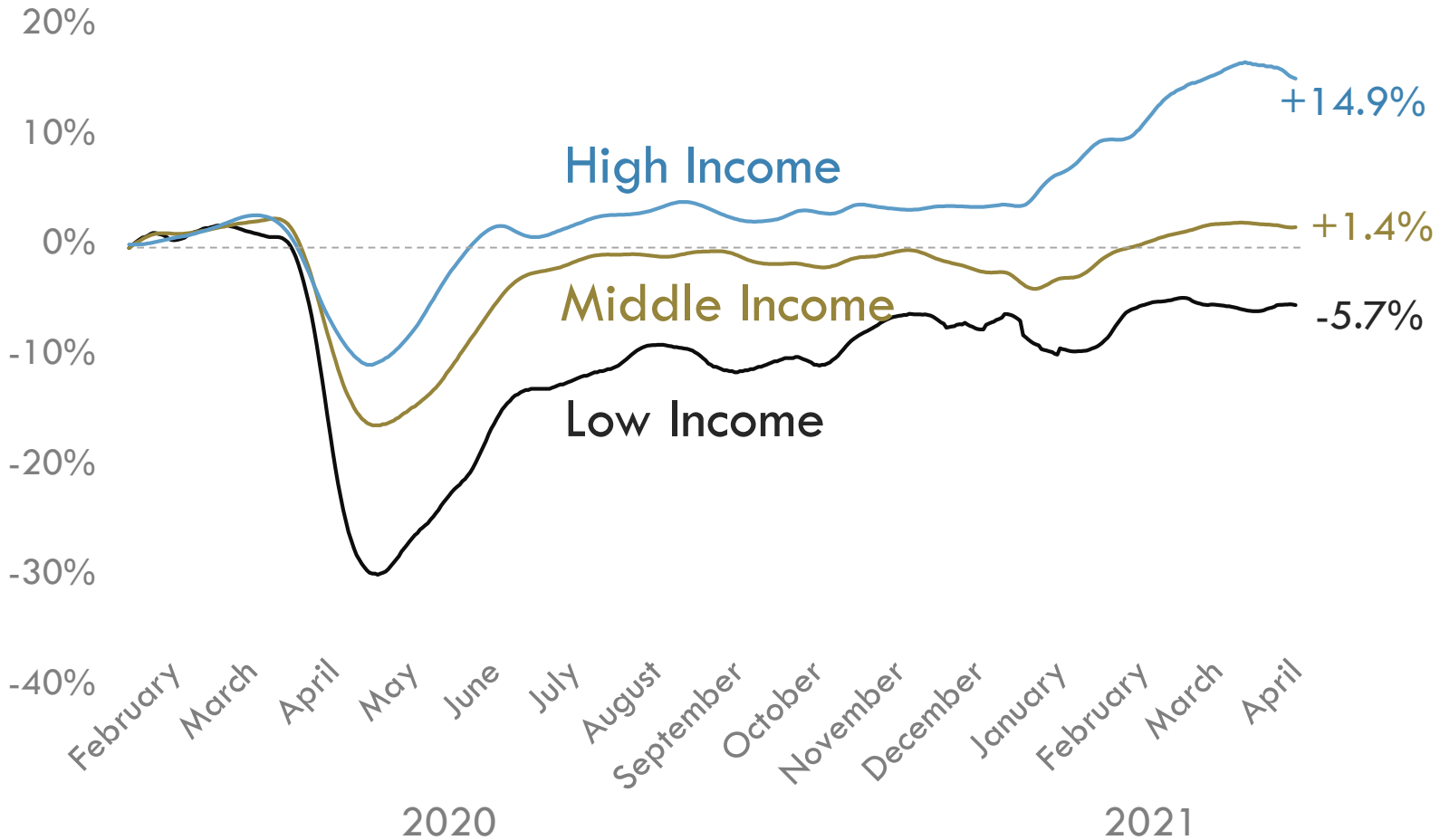
Accommodation & food services still the biggest job loser



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

The gap between low- and high-wage workers persists

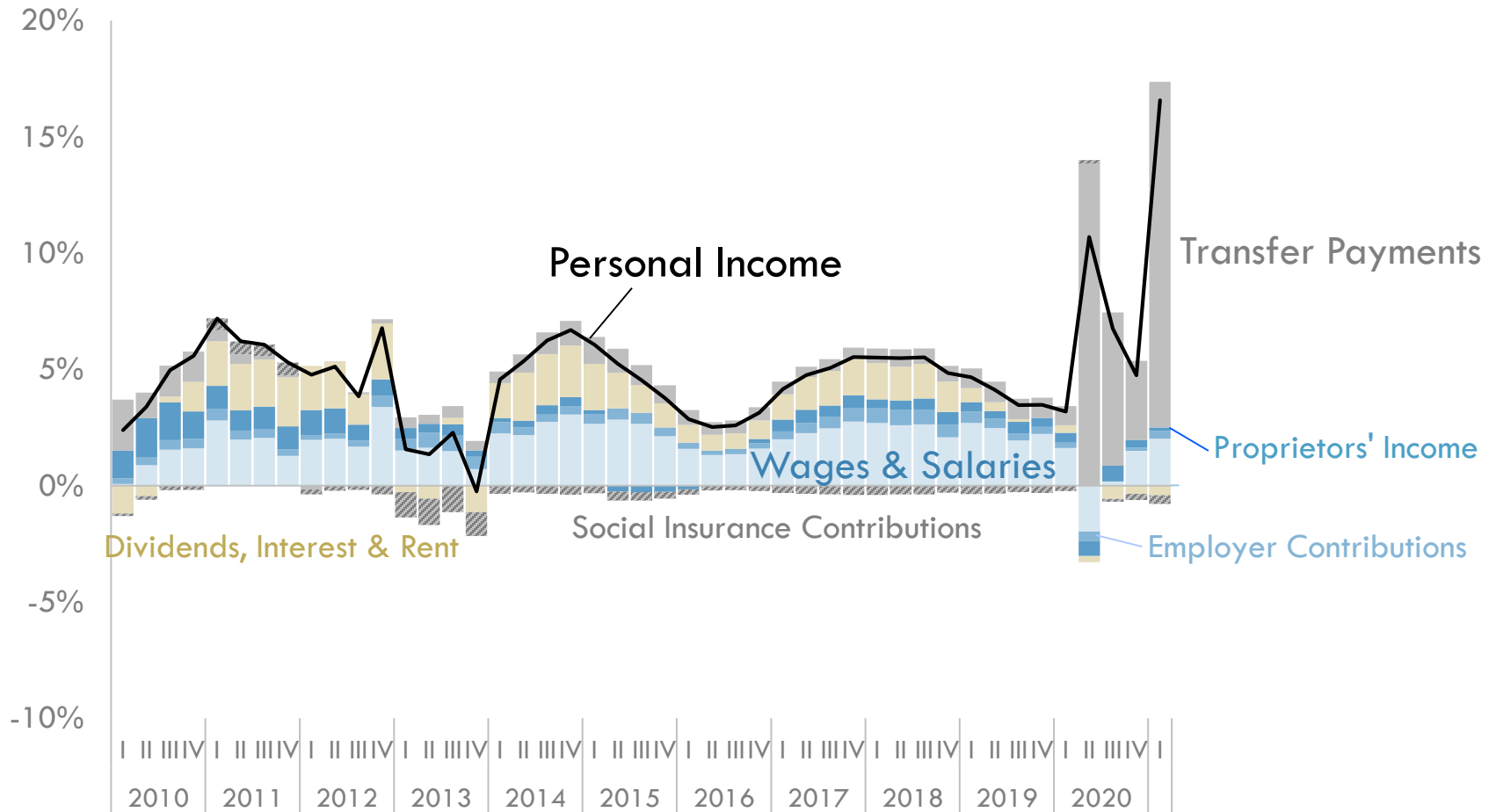
Percent change in Colorado employment since January 2020



Transfer payments continue to bolster incomes

U.S. Personal Income and Its Contributions

Contributions to Percent Change, Year-over-Year

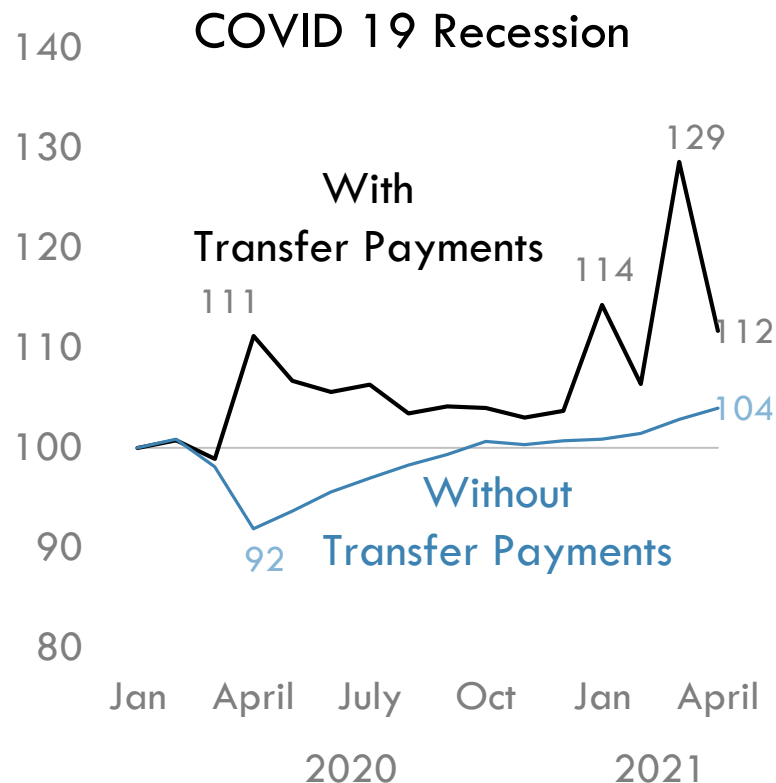
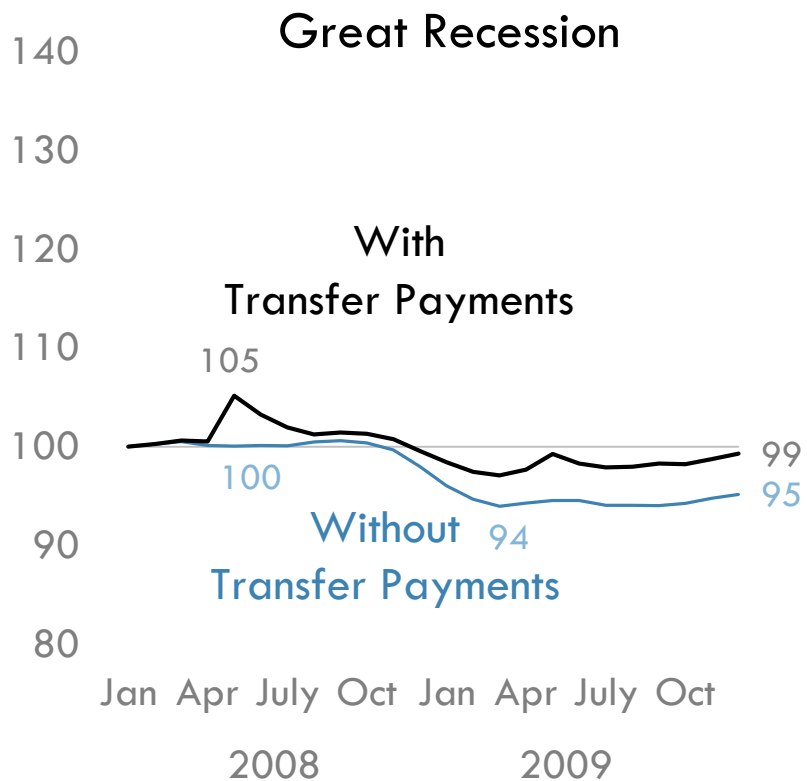


Source: U.S. Bureau of Economic Analysis with Legislative Council Staff calculations. Data shown as seasonally adjusted annual rates and are not adjusted for inflation.

Transfer payments turned losses into significant gains, stimulus impacts receding

U.S. Personal Income

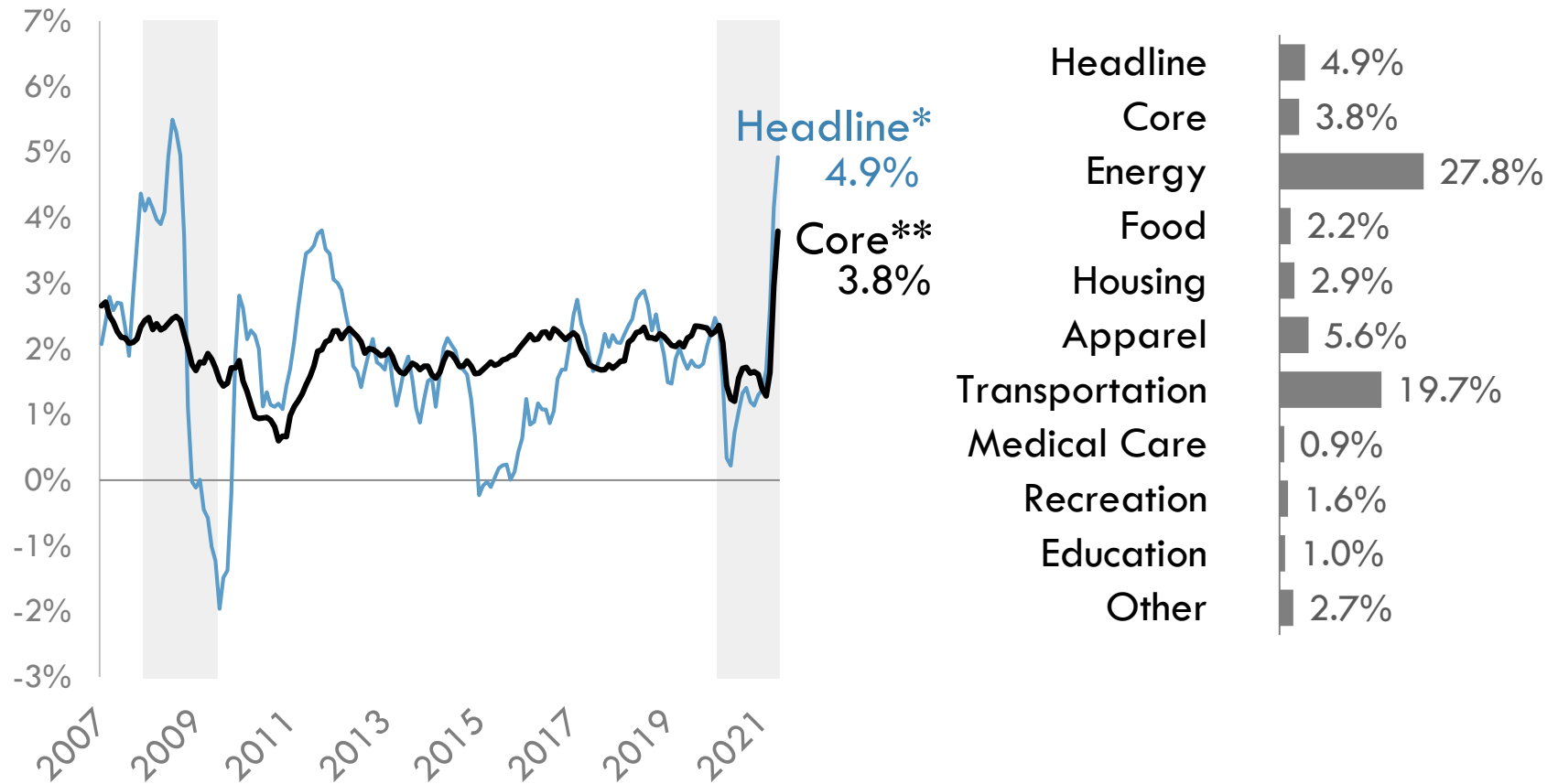
Indexed to Pre-Recession Levels



Inflationary pressure emerges in some sectors

U.S. City Average CPI-U Inflation
Year-over-Year Change in Prices

Selected Components, May 2021



Source: U.S. Bureau of Labor Statistics.

Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year.

*Headline inflation includes all products and services. **Core inflation excludes food and energy prices.

Risks to the forecast are shifting, remain elevated

- **Downside:** continued supply and demand mismatches, inflation, financial market volatility, overheating, and interest rate hikes
- **Upside:** passage of federal infrastructure spending package, with positive consequences for spending, employment, incomes, and tax revenues
- Ongoing uncertainty from the course of the COVID-19 pandemic and vaccine rollout
- Near-term risks are weighted to the upside

General Fund Budget Outlook

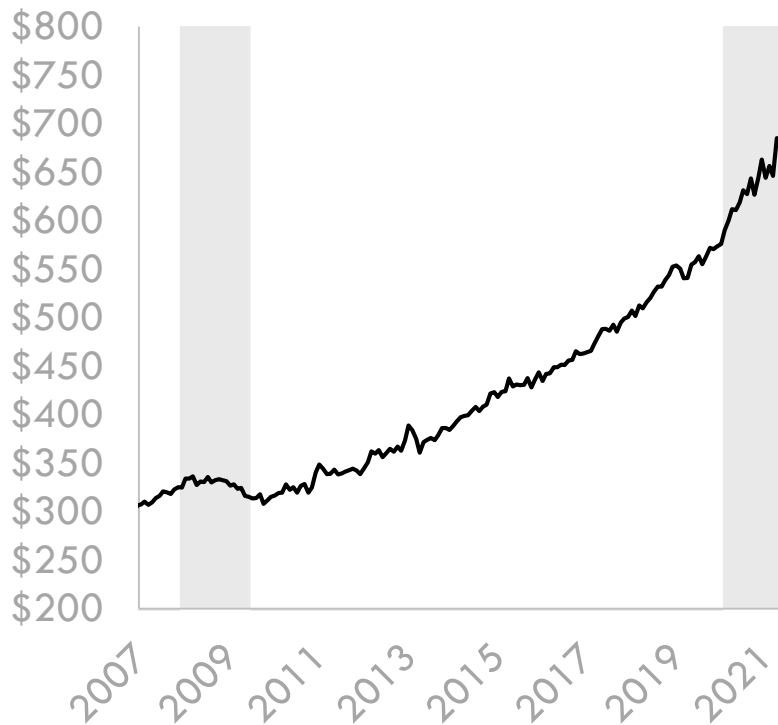


The largest General Fund streams at or exceeding pre-pandemic trend growth

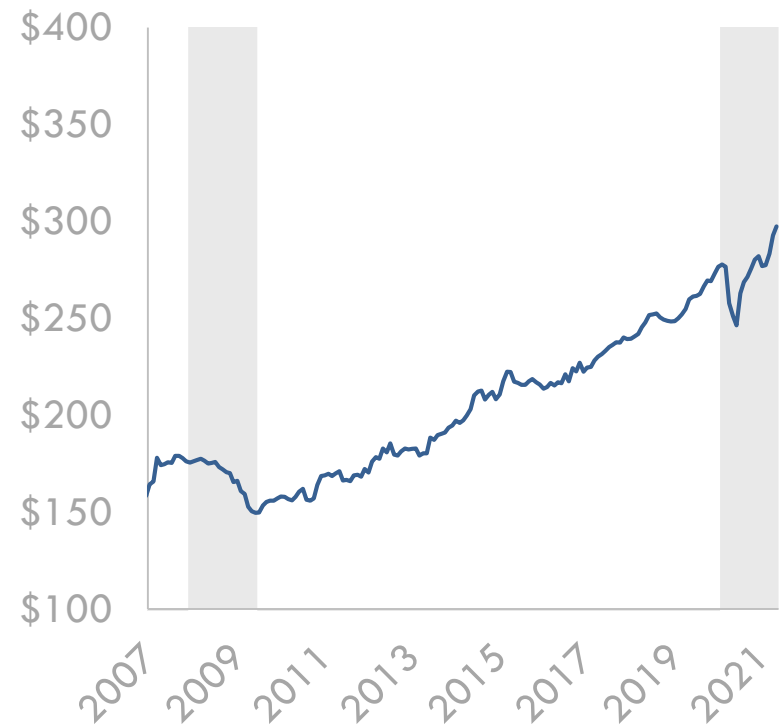
Monthly General Fund Collections from Selected Sources

Dollars in Millions

Individual Income Tax Withholding



Sales Tax Collections



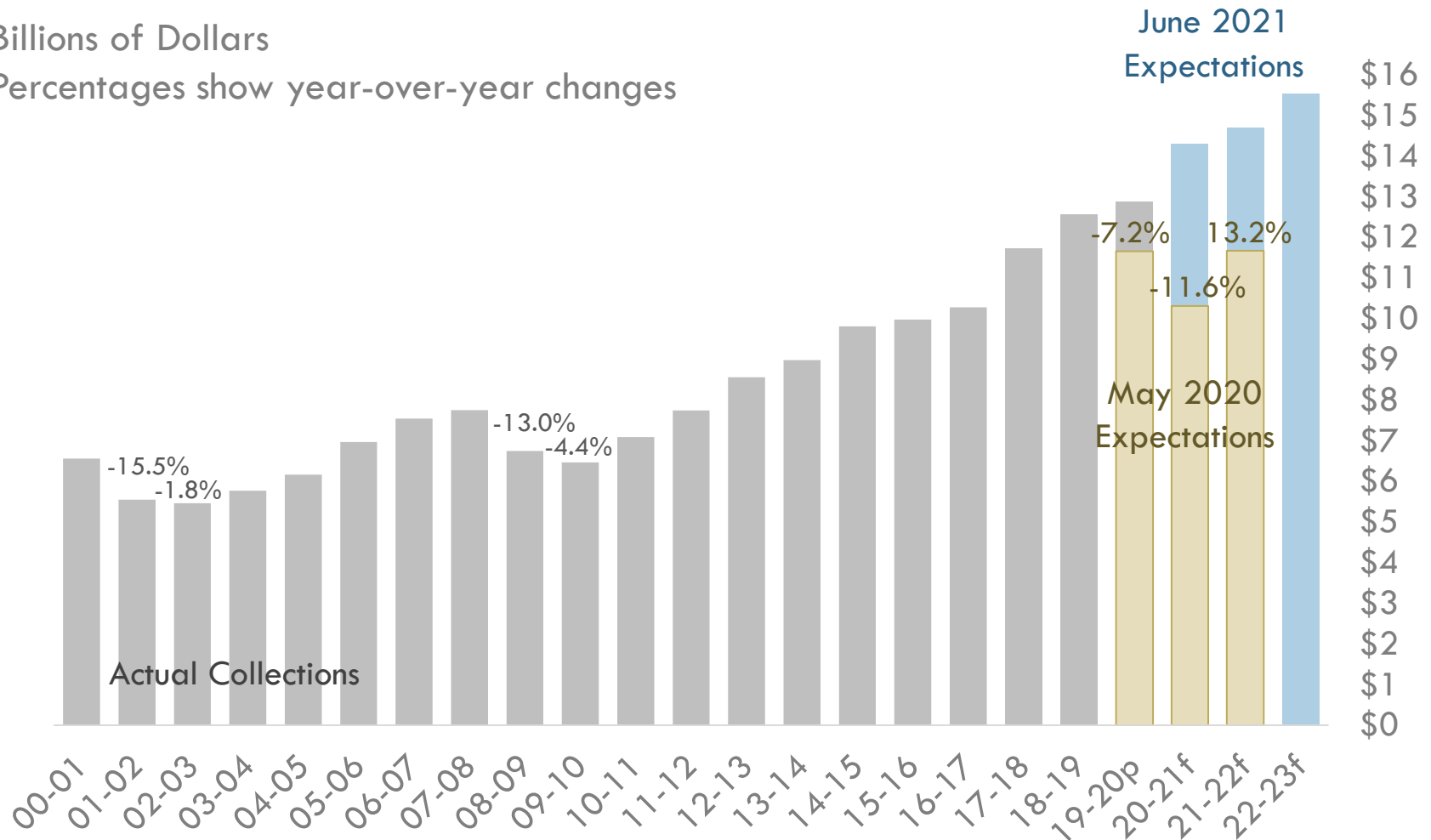
Source: Colorado Office of the State Controller with Legislative Council Staff seasonal adjustments. Data shown as three-month moving averages through May 2021. May 2021 data are preliminary.

Not your typical recession: Revenue expectations have increased considerably on the K-shaped recovery and federal stimulus

Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes



Source: Colorado Office of the State Controller and Legislative Council Staff June 2021 and May 2020 forecasts.

General Fund revenue exceeded expectations in FY 2020-21, warranting upward adjustments in future years

Gross General Fund Revenue

Billions of Dollars

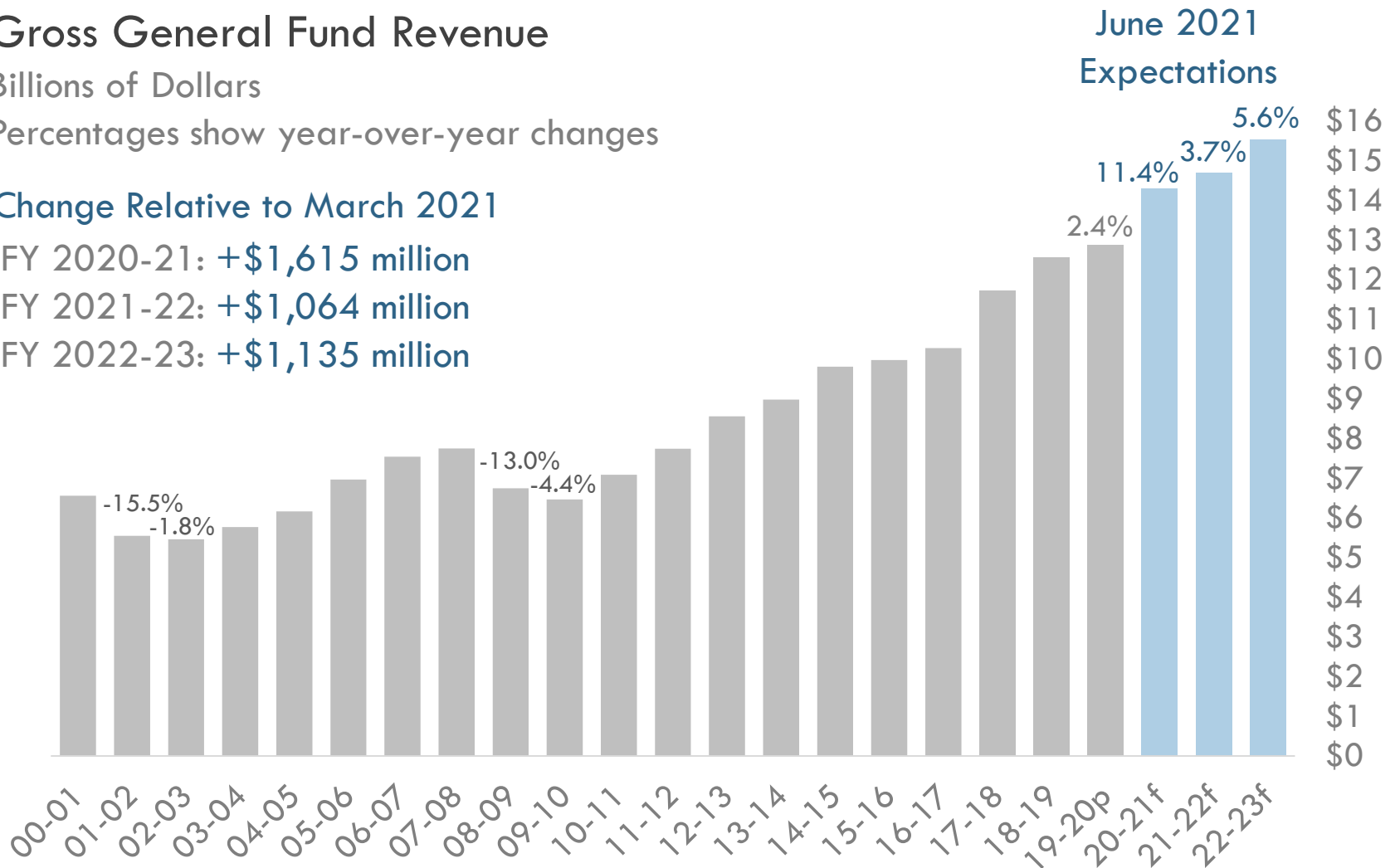
Percentages show year-over-year changes

Change Relative to March 2021

FY 2020-21: +\$1,615 million

FY 2021-22: +\$1,064 million

FY 2022-23: +\$1,135 million



TABOR Outlook

Revenue Subject to TABOR

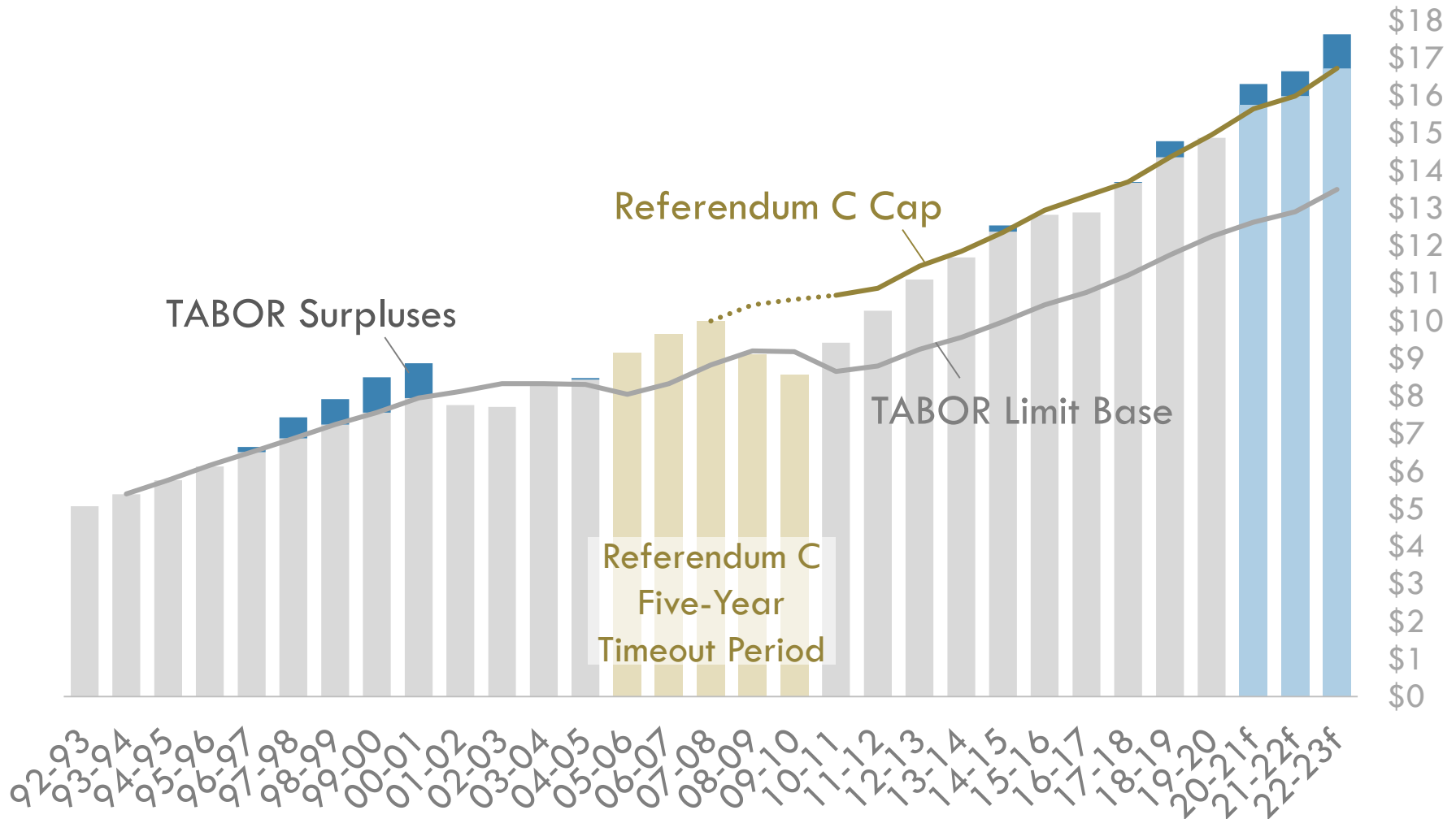
Dollars in Billions

Revenue Above the Ref C Cap

FY 2020-21: \$551.4 million

FY 2021-22: \$658.2 million

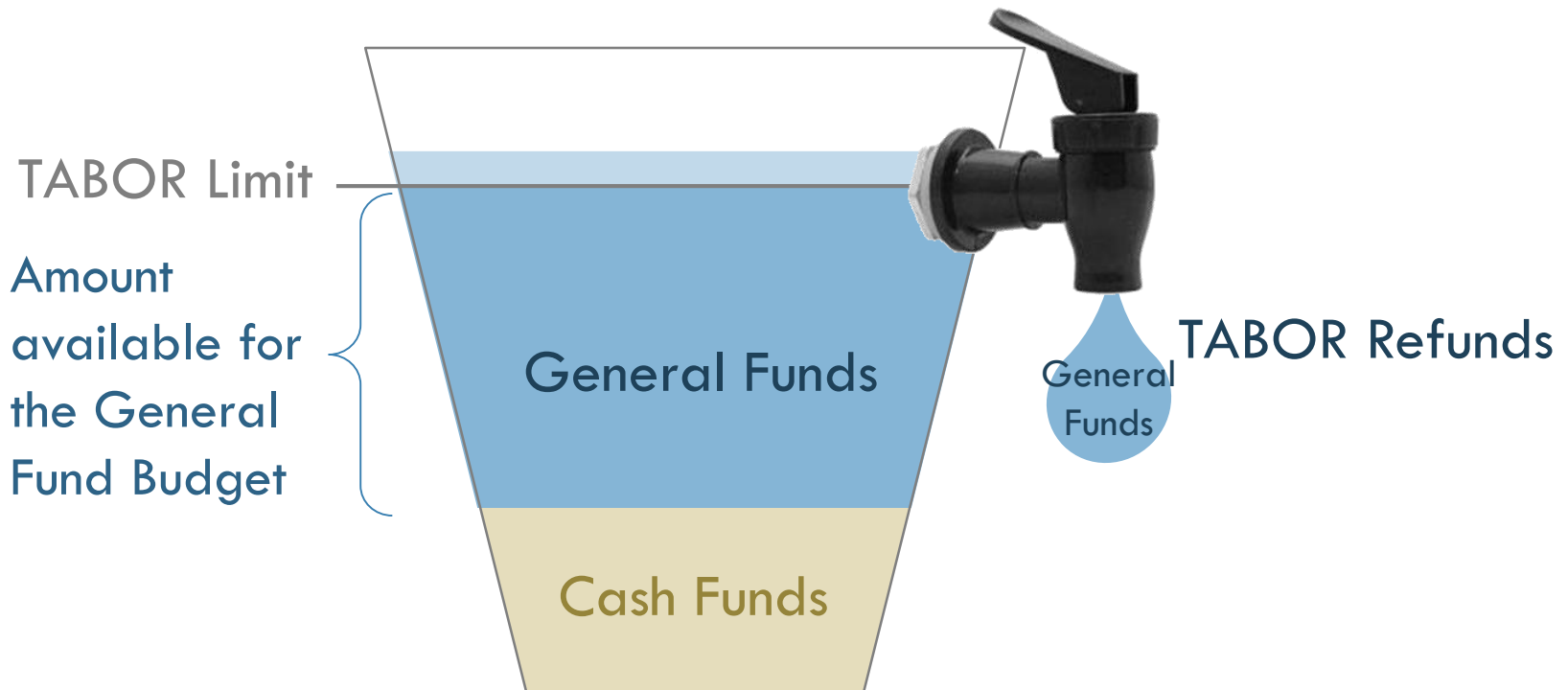
FY 2022-23: \$908.5 million



Source: Colorado Office of the State Controller and Legislative Council Staff June 2021 forecast.

TABOR Refunds are refunded from General Funds

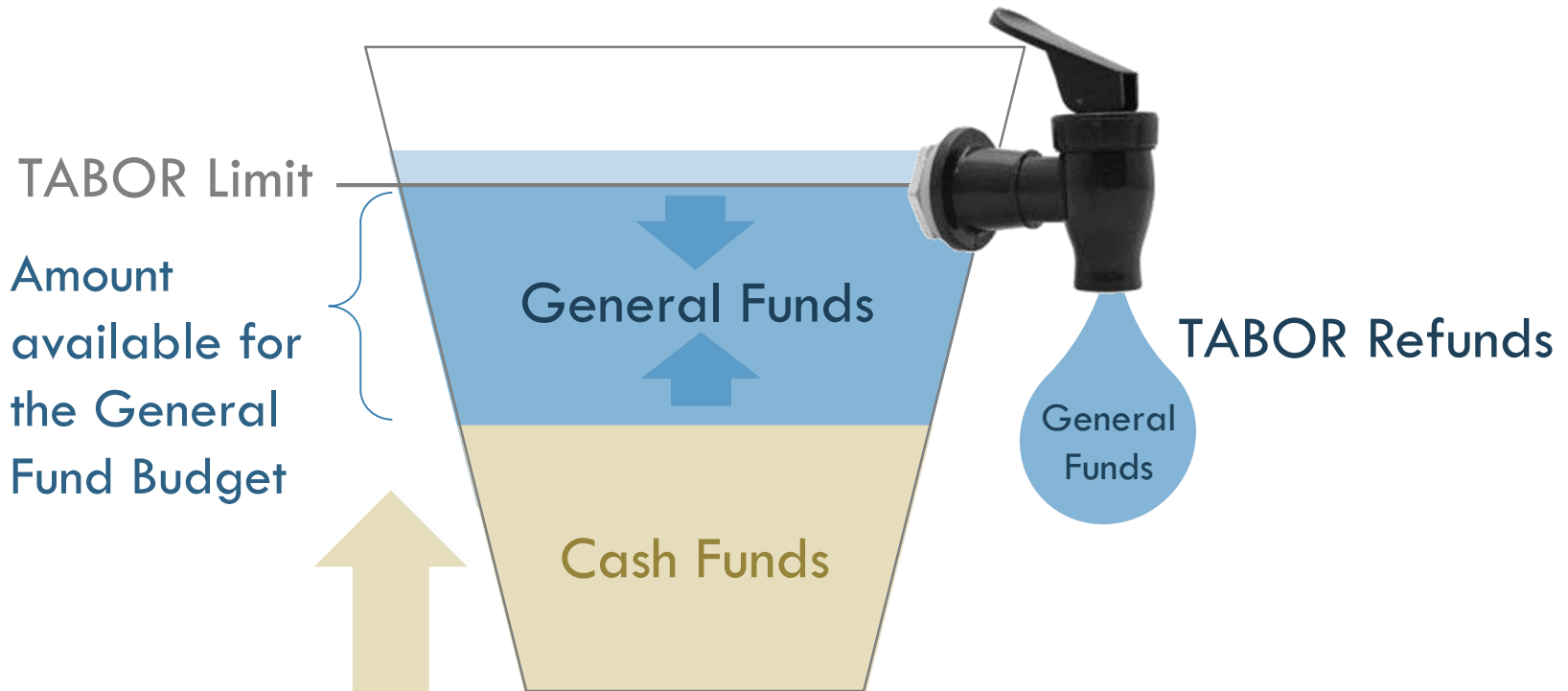
In a TABOR surplus situation...



General Fund dollars in = General Fund dollars out

TABOR Refunds are refunded from General Funds

In a TABOR surplus situation...

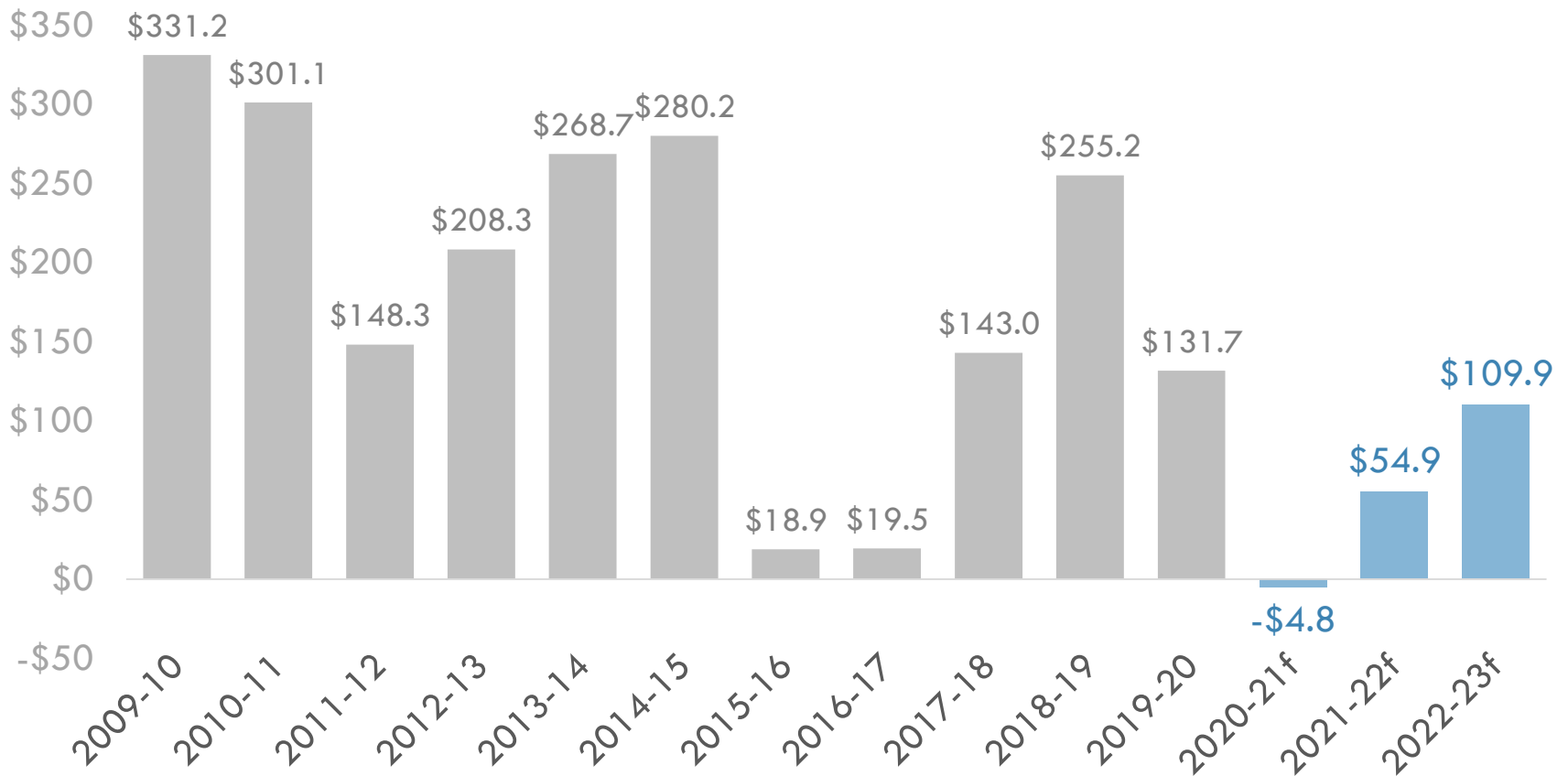


Cash Fund dollars in = General Fund dollars out

Severance taxes are the most volatile cash funds revenue source

Severance Tax Collections

Dollars in Millions



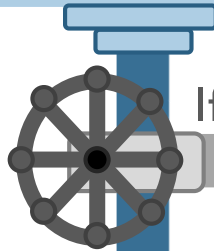
TABOR Refund Obligation



TABOR Refund Mechanisms

#1

Reimburse Local Gov'ts for
Property Tax Exemptions
Up to ~\$165 million



If ~\$295 million+

#2

Temporary
Income Tax Rate Reduction
Next ~\$130 million
If the refund is large enough



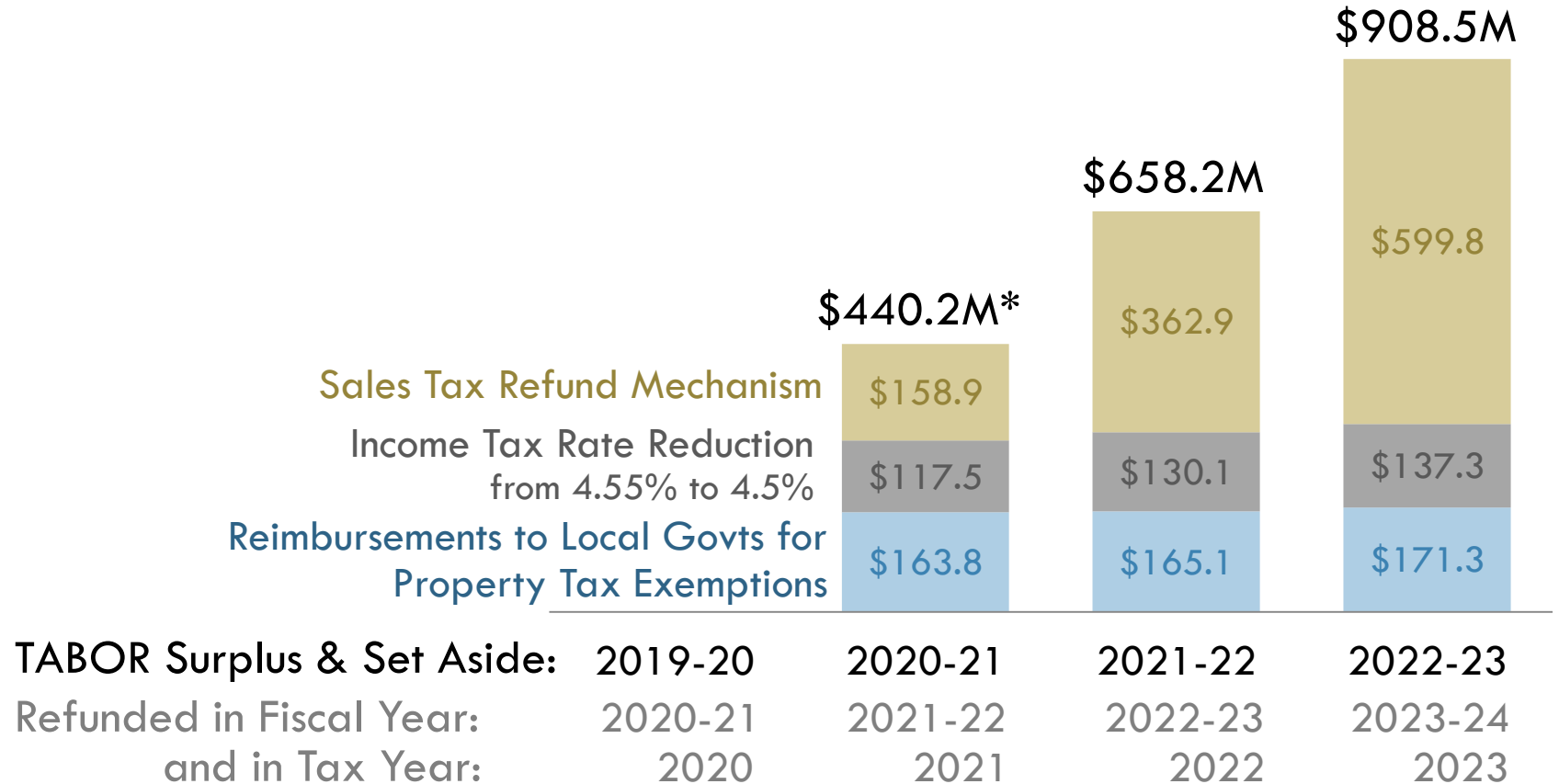
#3

Sales Tax Refund
Any remaining

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

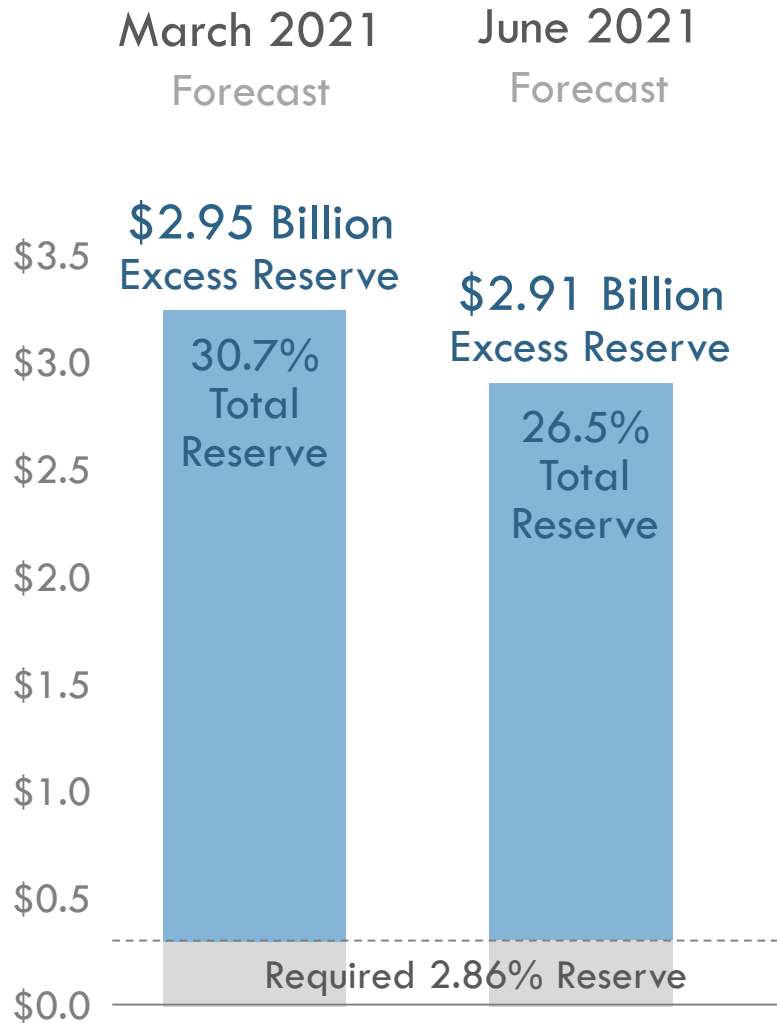
Dollars in Millions



Source: Colorado Office of the State Controller and Legislative Council Staff June 2021 forecast.

*The refund from the FY 2020-21 surplus is adjusted for an estimated \$111.2 million in over-refunds from prior years.

Current Year | FY 2020-21 General Fund Budget Situation



Changes since the March 2021 forecast:

Revenue increased \$1.6 billion on stronger than expected 2020 income taxes, stimulated spending

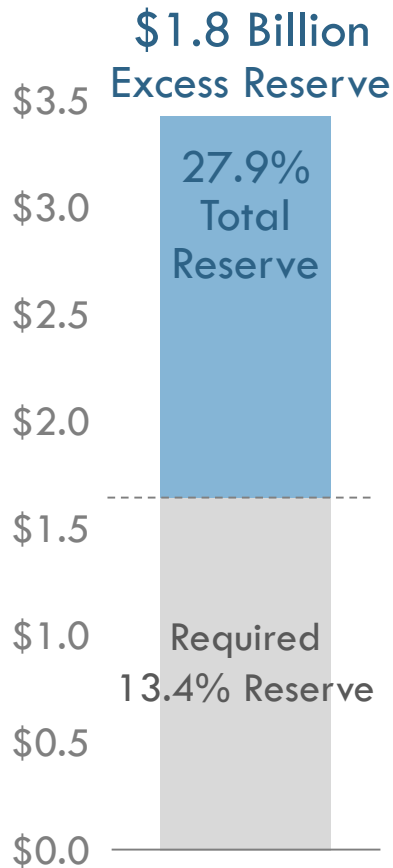
TABOR set-aside of \$440.2 million to be refunded *next year*

Net transfers from the GF increased by \$1.1 billion

GF appropriations increased by \$393.7 million

Next Year | FY 2021-22 General Fund Budget Situation

June 2021
Forecast



Changes since the
March 2021 forecast:

Beginning balance \$338.8 million lower from changes in FY 2020-21

Revenue expectations increased \$1.1 billion based on FY 2020-21 collections to date

TABOR set-aside of \$658.2 million to be refunded *next year*; \$163 million in property tax exemptions funded by FY 2020-21 surplus

Net transfers from the GF increased \$693 million

GF appropriations \$1.7 billion higher than FY 2020-21

Reserve requirement increased from 2.86% to 13.4%

Out Year | FY 2022-23 Budget Outlook

Additional revenue available to spend or save above FY 2021-22 spending levels. Amounts hold FY 2021-22 appropriations constant and incorporate the revenue forecast, current law transfers, rebates and expenditures, and the 15% reserve requirement.

June 2021

Forecast

\$3.2 Billion

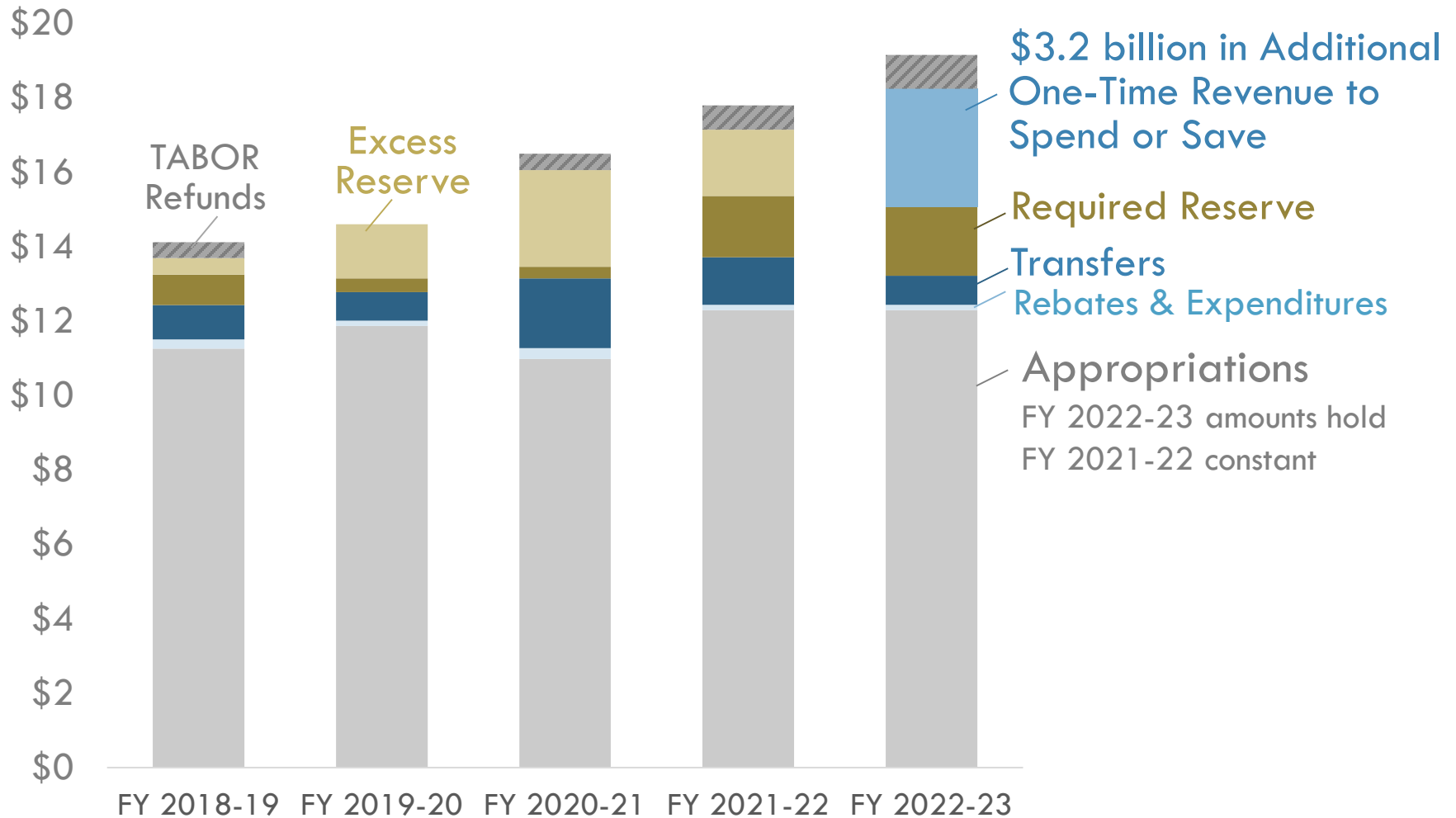


Considerations

- Amounts do not account for caseload growth, inflationary, or other budgetary pressures
- Any changes made to the FY 2021-22 budget will impact this amount
- This amount is one-time funding that won't be replenished in future years
- Federal American Rescue Plan Act funds fall outside the General Fund budget

General Fund Budget (Spending or Saving)

Dollars in Billions



Source: Legislative Council Staff June 2021 forecast and current law.

Risks to the Forecast

Ongoing risks

- Legislative adjustments
- Pandemic's trajectory
- Impacts from state and federal tax policy changes
- More federal stimulus? What happens when the stimulus wears off?
- Extent of economic damage and its lasting effects (“scarring”)

Upside and downside budget risks viewed as balanced

- Collections continue to surprise to the upside, though downside risks continue to cloud the horizon
- Revenue will be constrained by the Referendum C cap throughout the forecast period, capping General Fund budget growth

Questions?

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