



March 2024 | Legislative Council Staff
Economic & Revenue Forecast

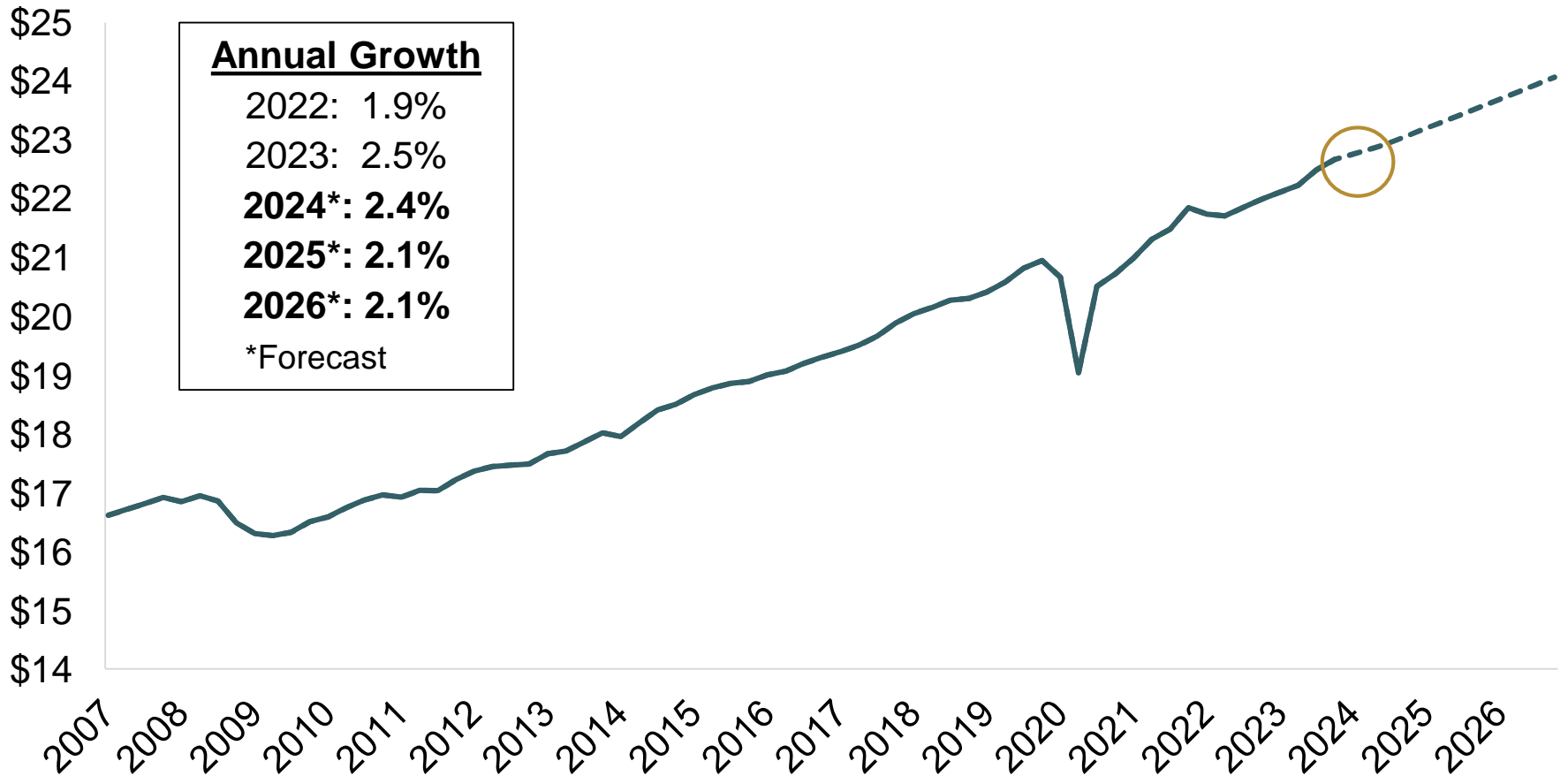
Presentation to the Joint Budget Committee
March 15, 2024

Economic Outlook



Economic growth exceeded expectations in 2023

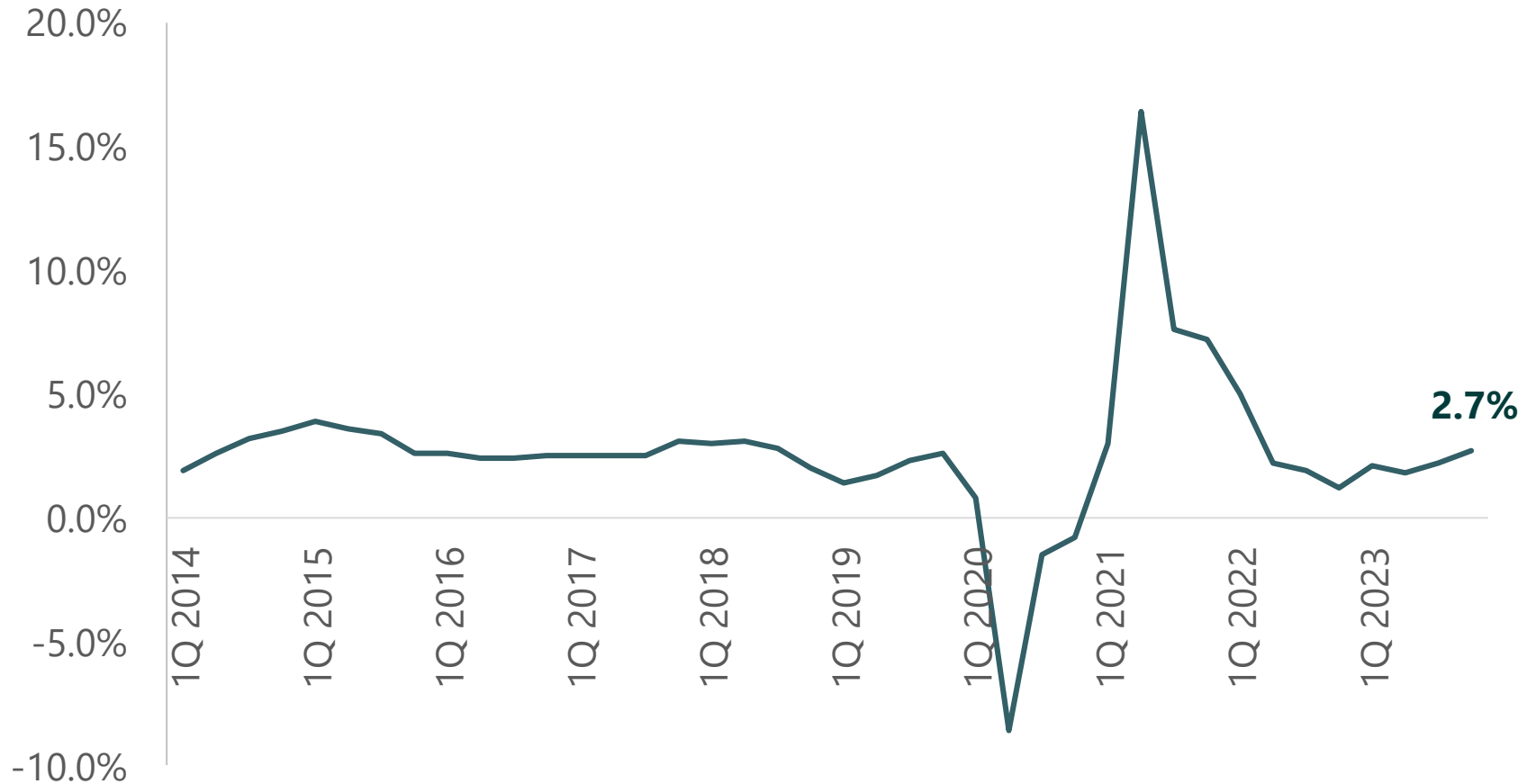
Real U.S. Gross Domestic Product Trillions of Dollars, Adjusted for Inflation



Source: U.S. Bureau of Economic Analysis and Legislative Council Staff March 2024 projections. Real GDP is inflation-adjusted to chained 2017 levels and shown at seasonally adjusted annualized rates.

Real consumer spending picks up

Real U.S. Personal Consumption Expenditures
Year-Over-Year Percent Change



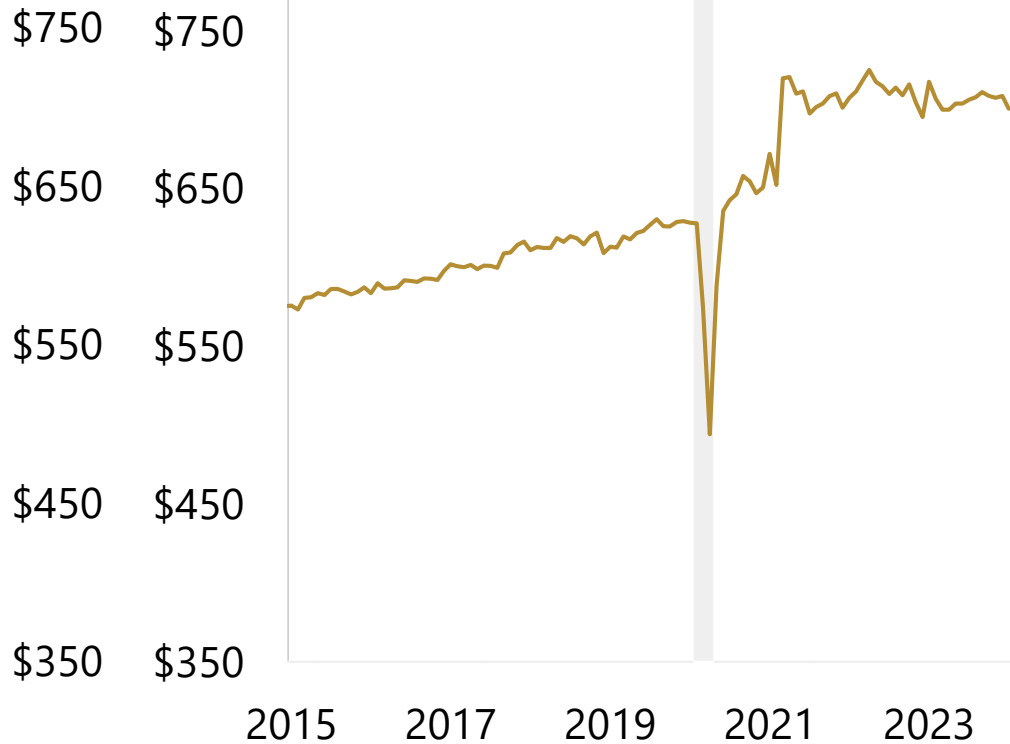
Source: U.S. Bureau of Economic Analysis.

Nominal retail sales weaken, real sales growth remains down

Nominal U.S. Retail and Food Service Sales
Billions of Dollars



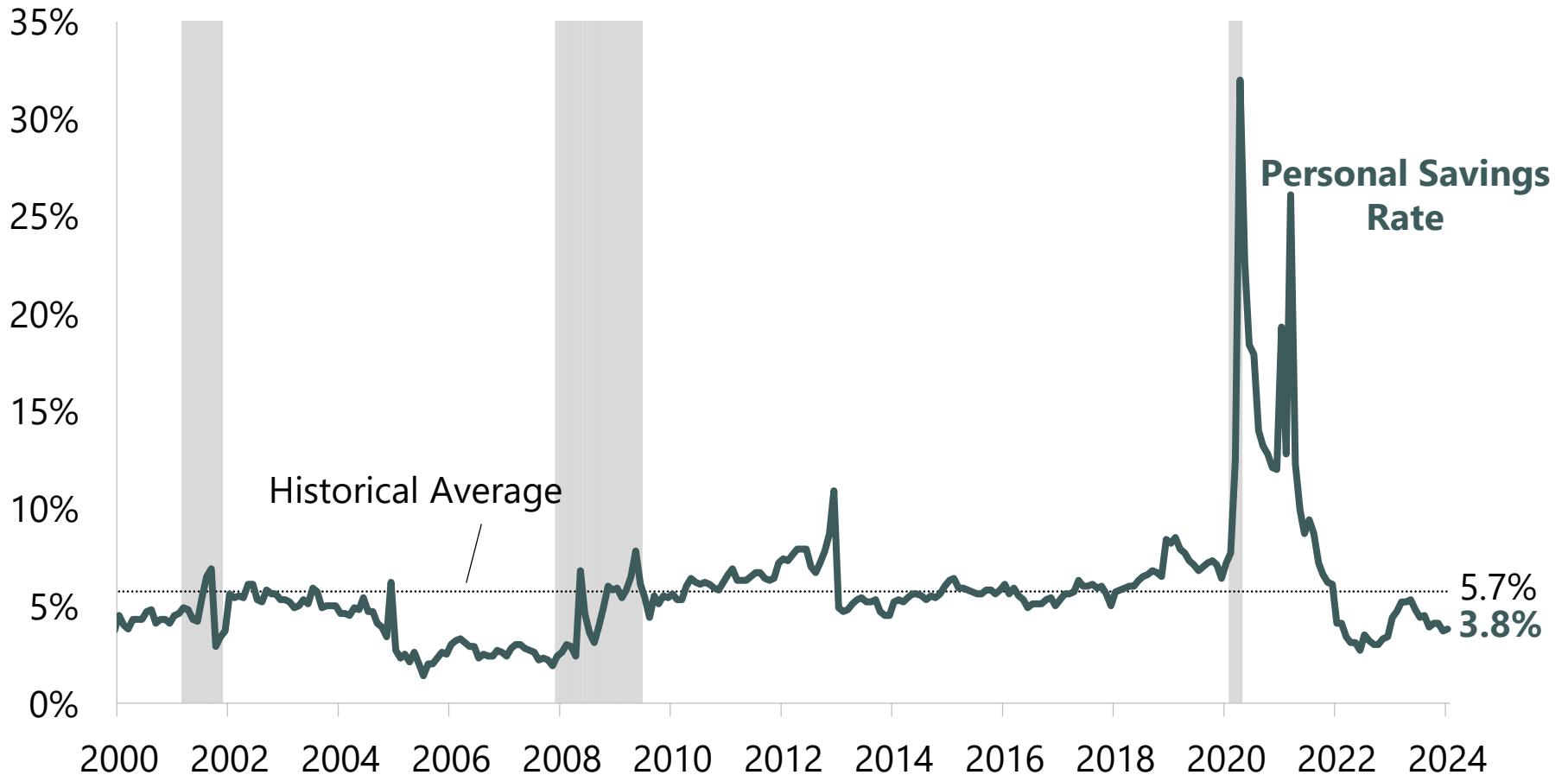
Real U.S. Retail and Food Service Sales
Billions of 2024 Dollars



Source: U.S. Census Bureau. Adjusted for inflation using the consumer price index for all urban areas (CPI-U) to the dollar value of most recent month of data. U.S. data are seasonally adjusted. Data through January 2024.

Household savings below the historical average

Personal Savings Rate Percent



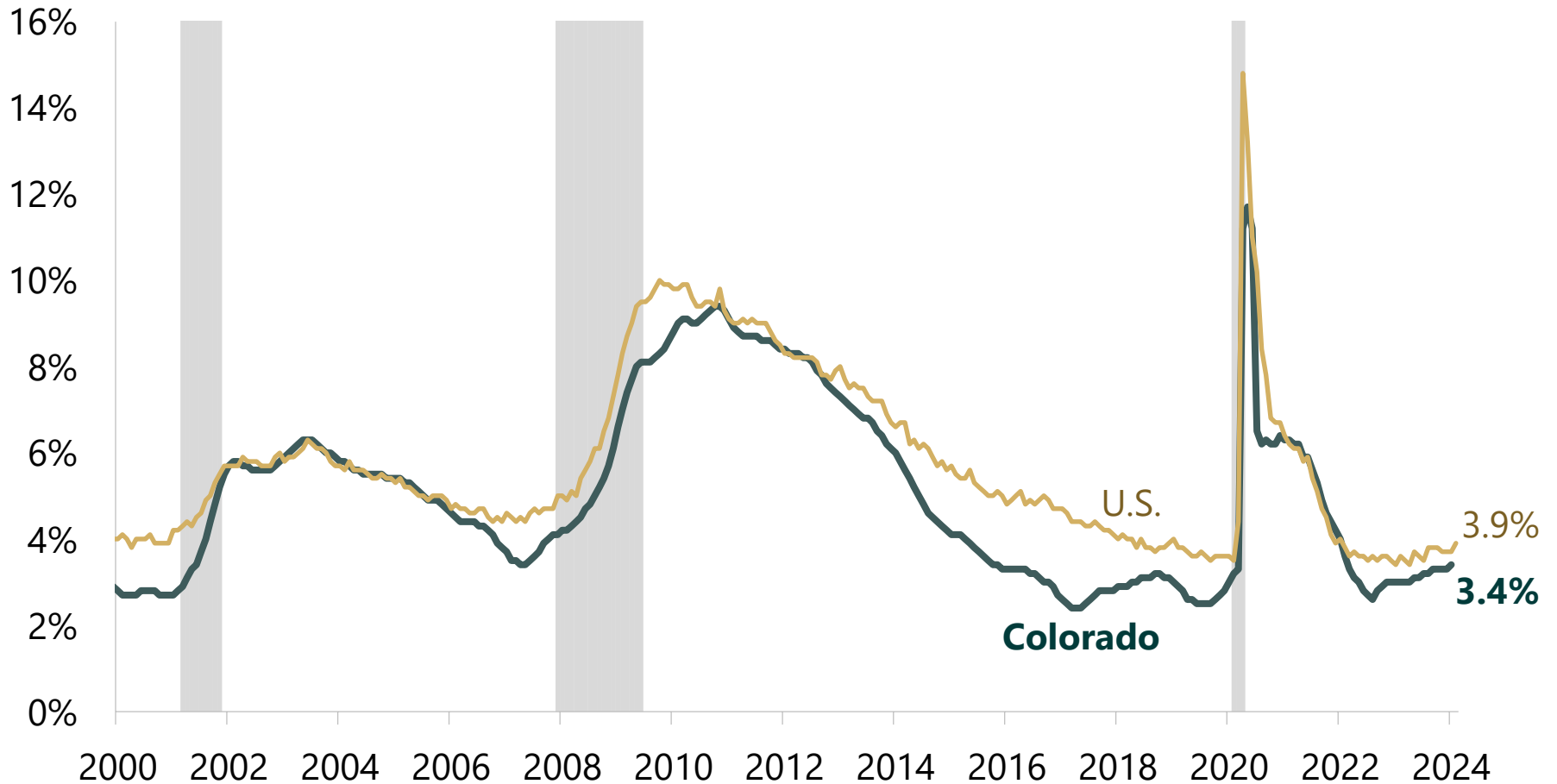
Source: U.S. Bureau of Economic Analysis.

*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.

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

Unemployment Rates

Percent

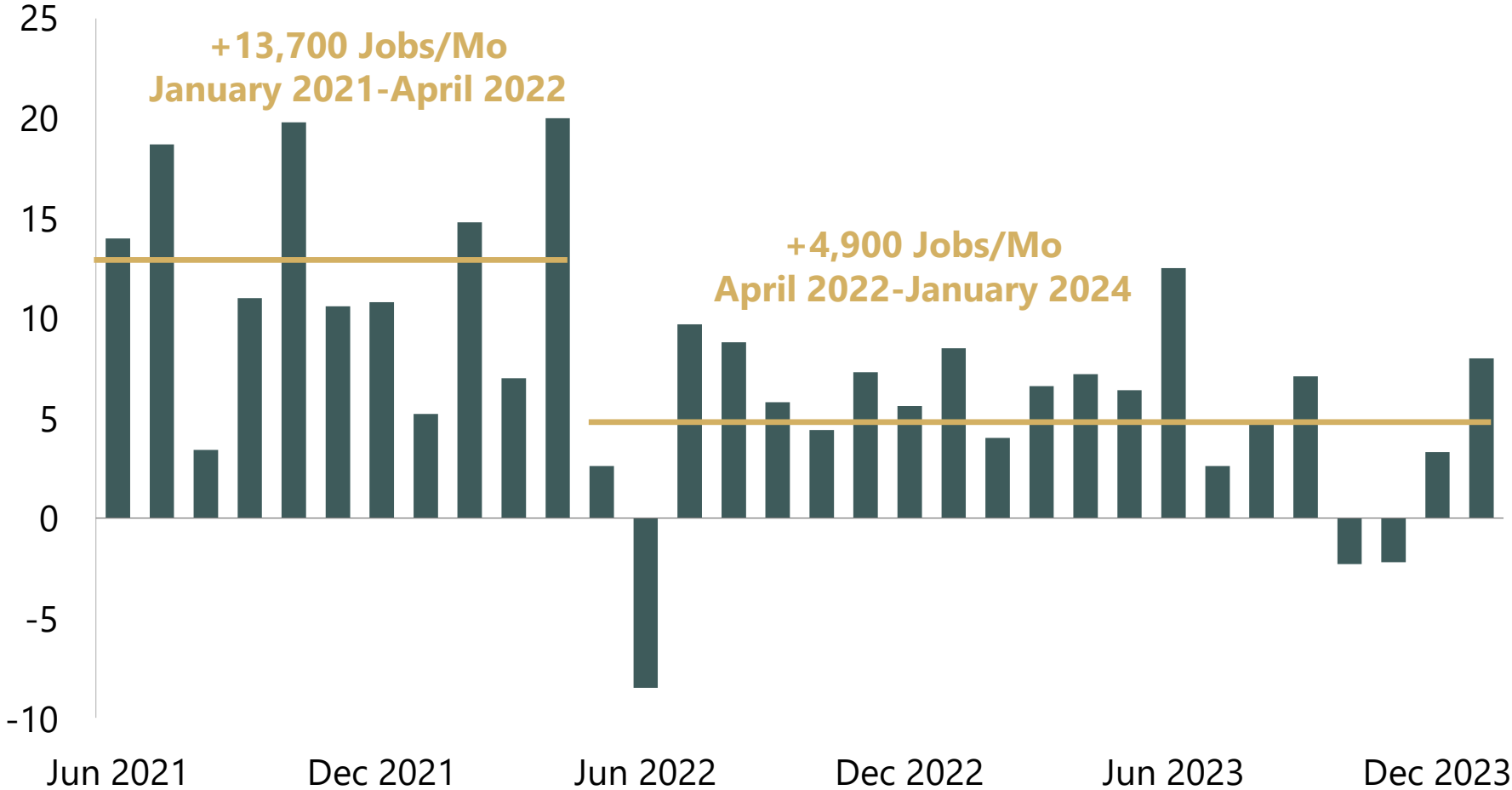


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. U.S. data are through February 2024. Colorado data are through January 2024.

Colorado's monthly employment gains slow since mid-2022

Monthly Nonfarm Payroll Job Growth in Colorado

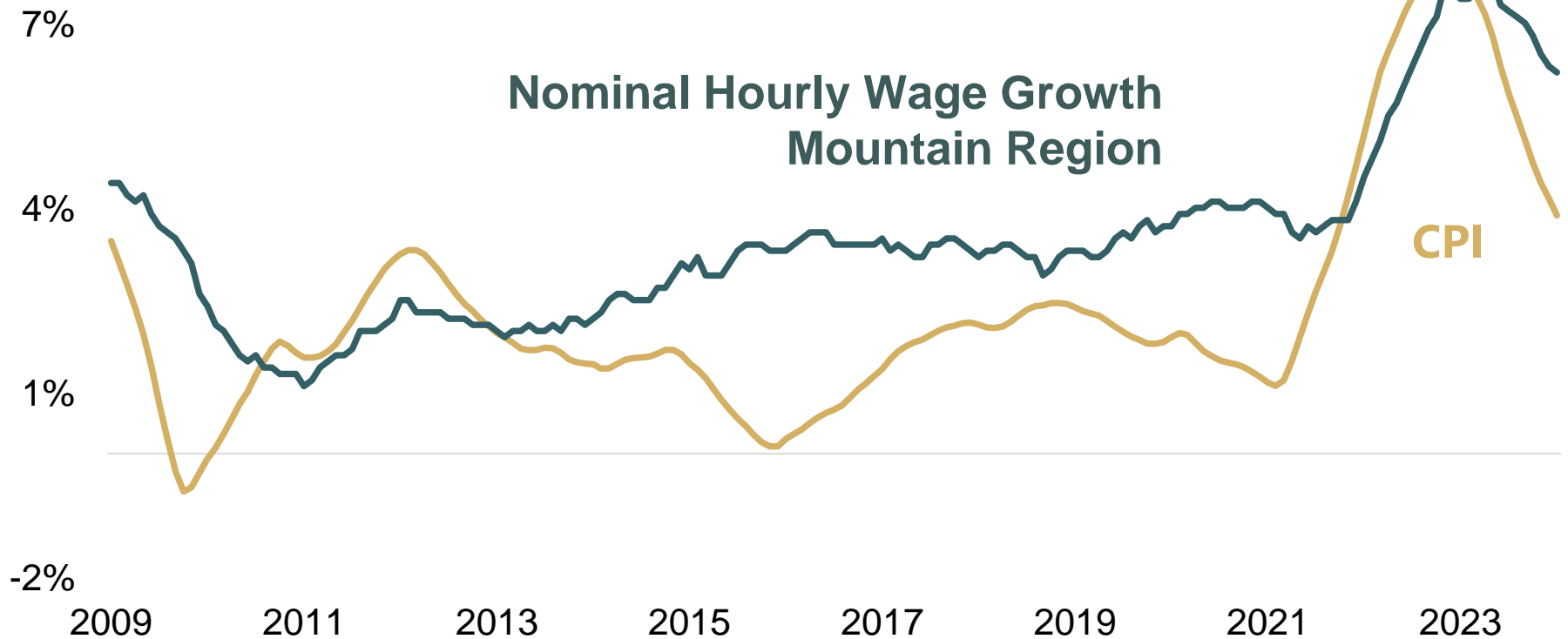
Thousands of Jobs



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

Wage gains outpaced inflation over the past year

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

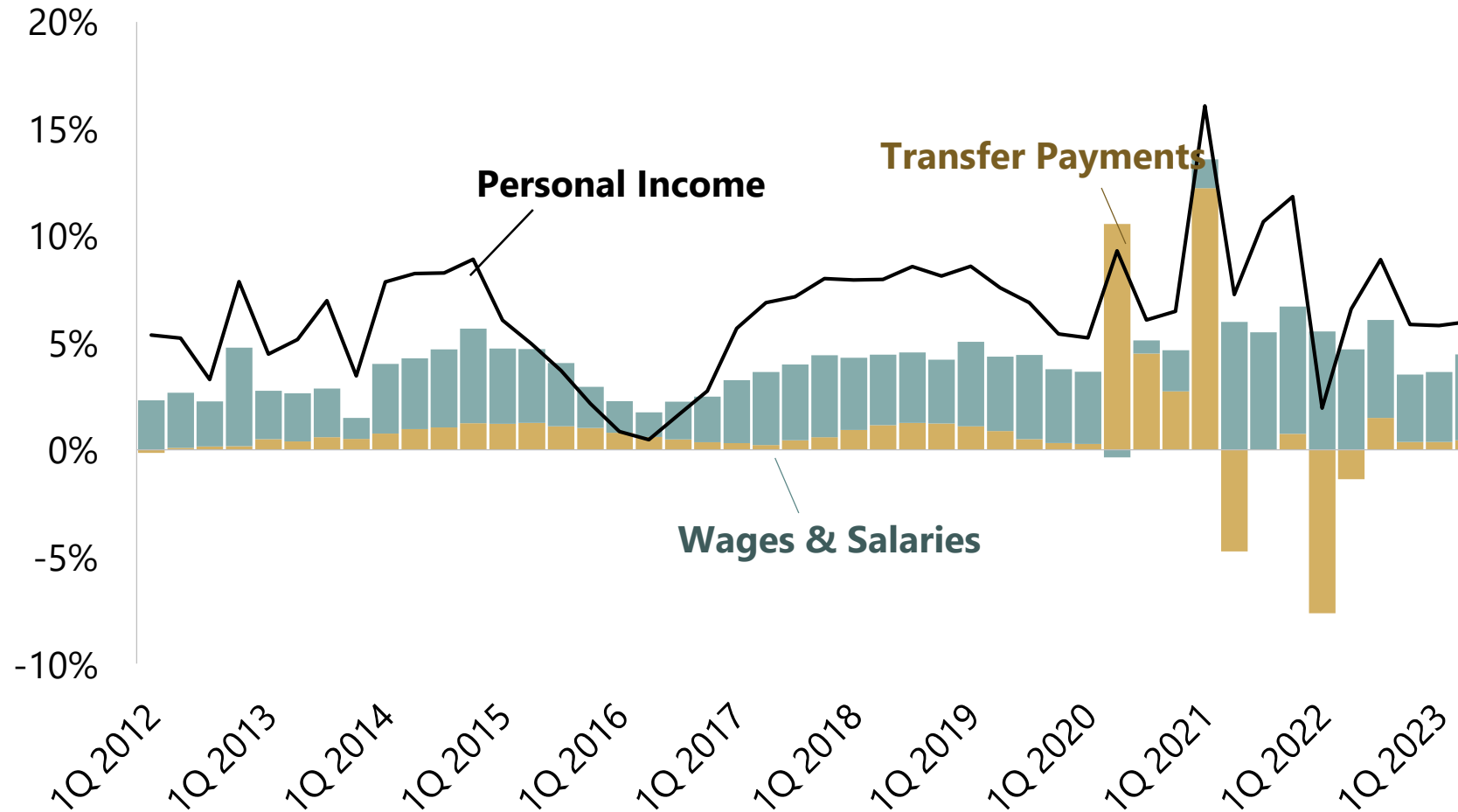


Source: Atlanta Fed Wage Growth Tracker and Bureau of Labor Statistics. Data are through November 2023.

Colorado personal income growth falls to 3.3 percent as transfers drag, but wage growth remains steady

Contribution of Wages and Transfers to Personal Income Growth

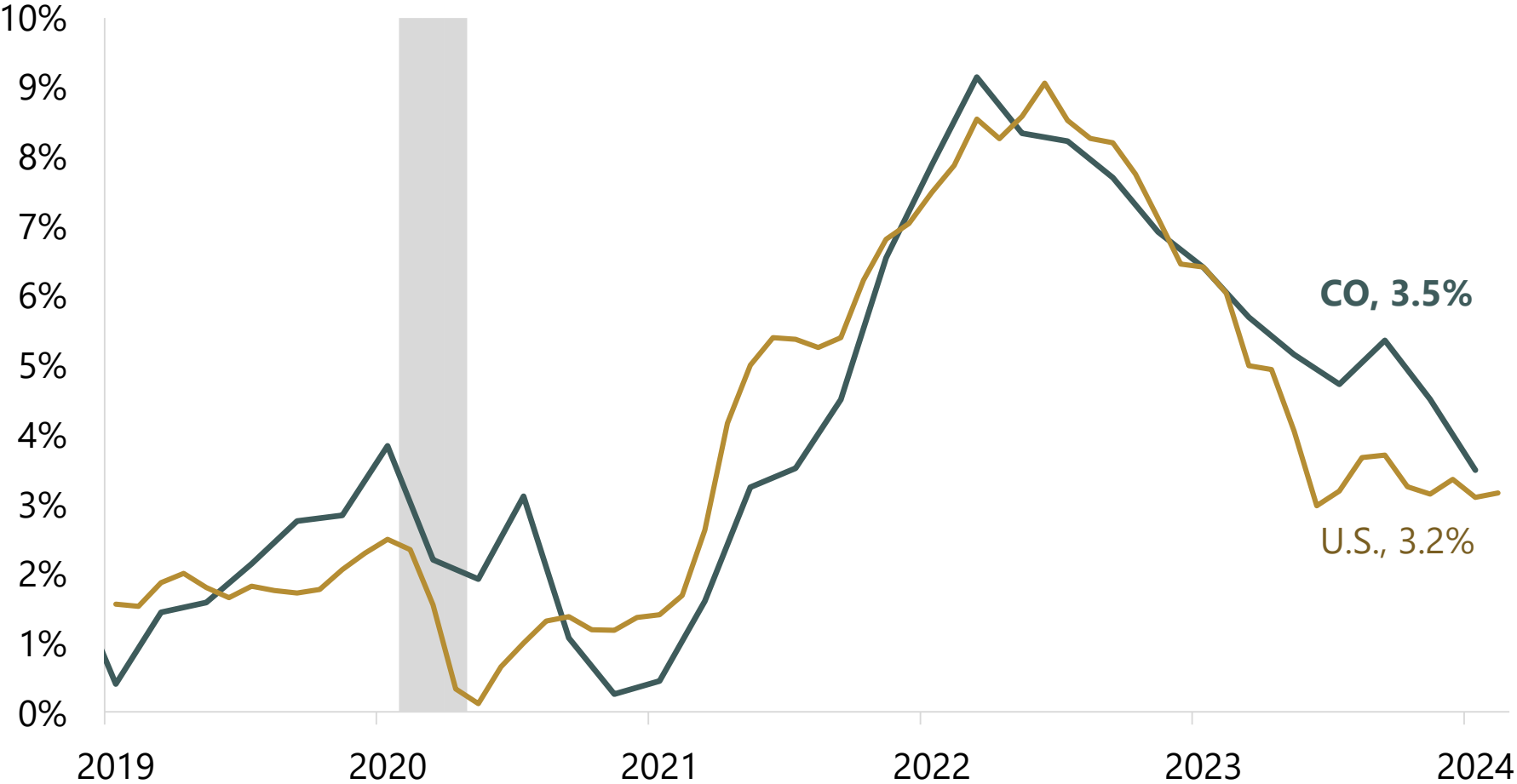
Year-over-year percent change



Source: U.S. Bureau of Economic Analysis with Legislative Council Staff Calculations. Data are seasonally adjusted through 2023Q3.

Inflation continues to fall, and remains higher in Denver than the nation

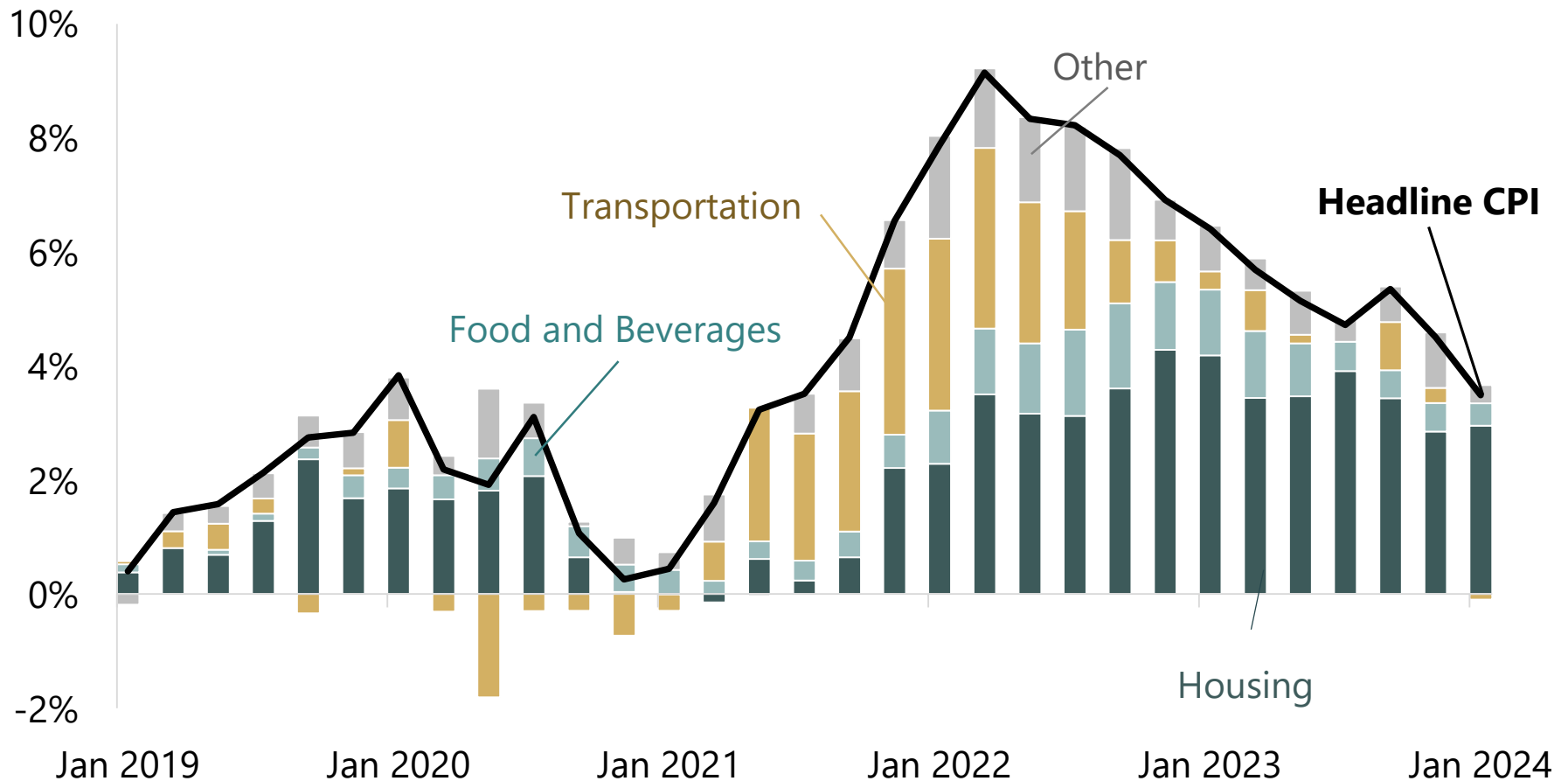
Headline CPI-U Inflation
Year-over-Year Change in Prices



Source: U.S. Bureau of Labor Statistics. Data are through November 2023. Colorado inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area.

Housing prices continue to exert upward pressure on inflation

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



The forecast anticipates a continued, slowing expansion.

- **Downside Risks:**

- Deteriorating household finances hurt consumption
- High borrowing costs discourage investment
- Accelerating unemployment
- Poor global economy impacts U.S. growth

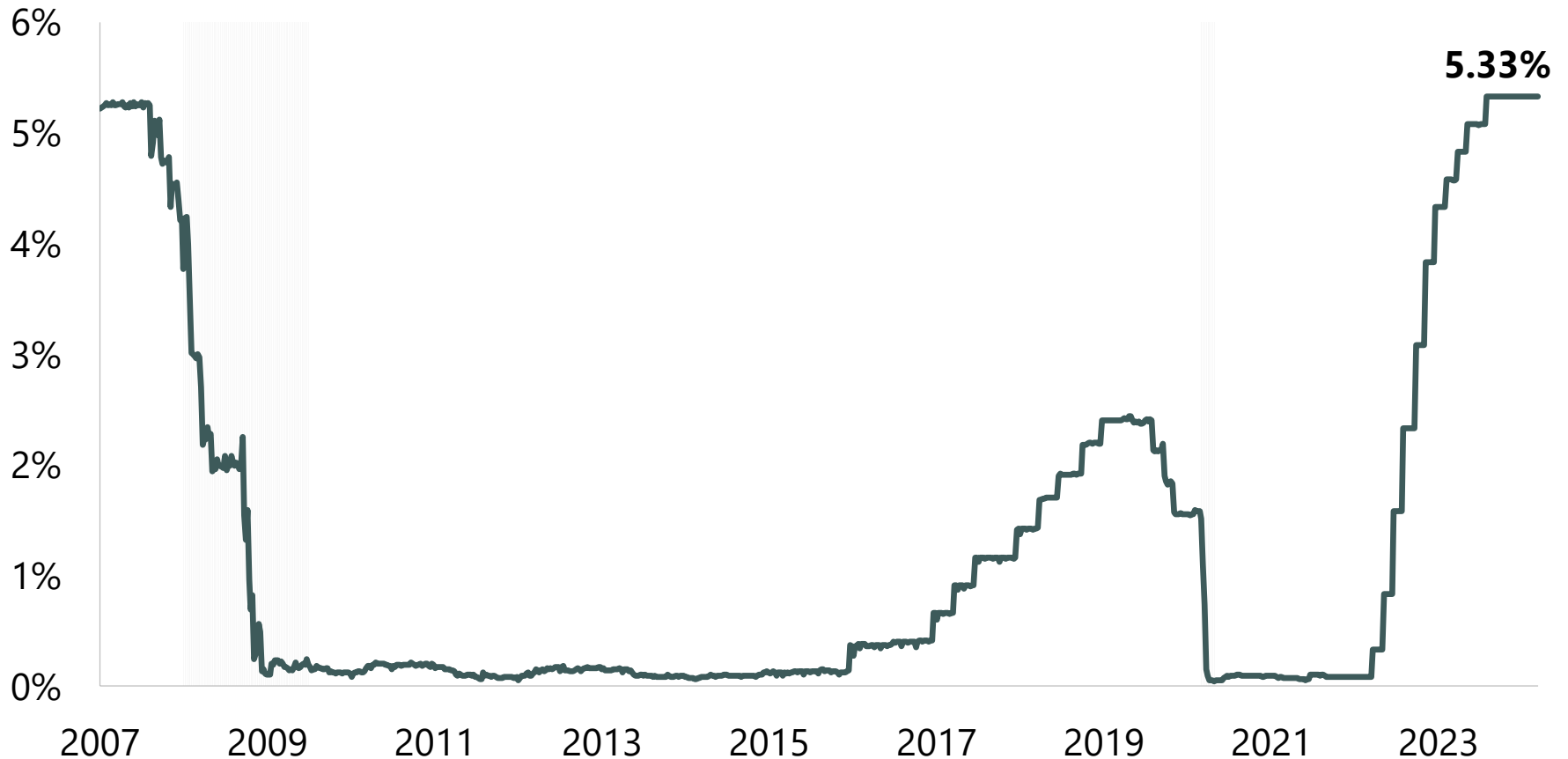
- **Upside Risks:**

- Faster resolution to inflationary pressures
- More accommodative monetary policy
- Resolution to international conflicts

Supplemental Economic Outlook Slides

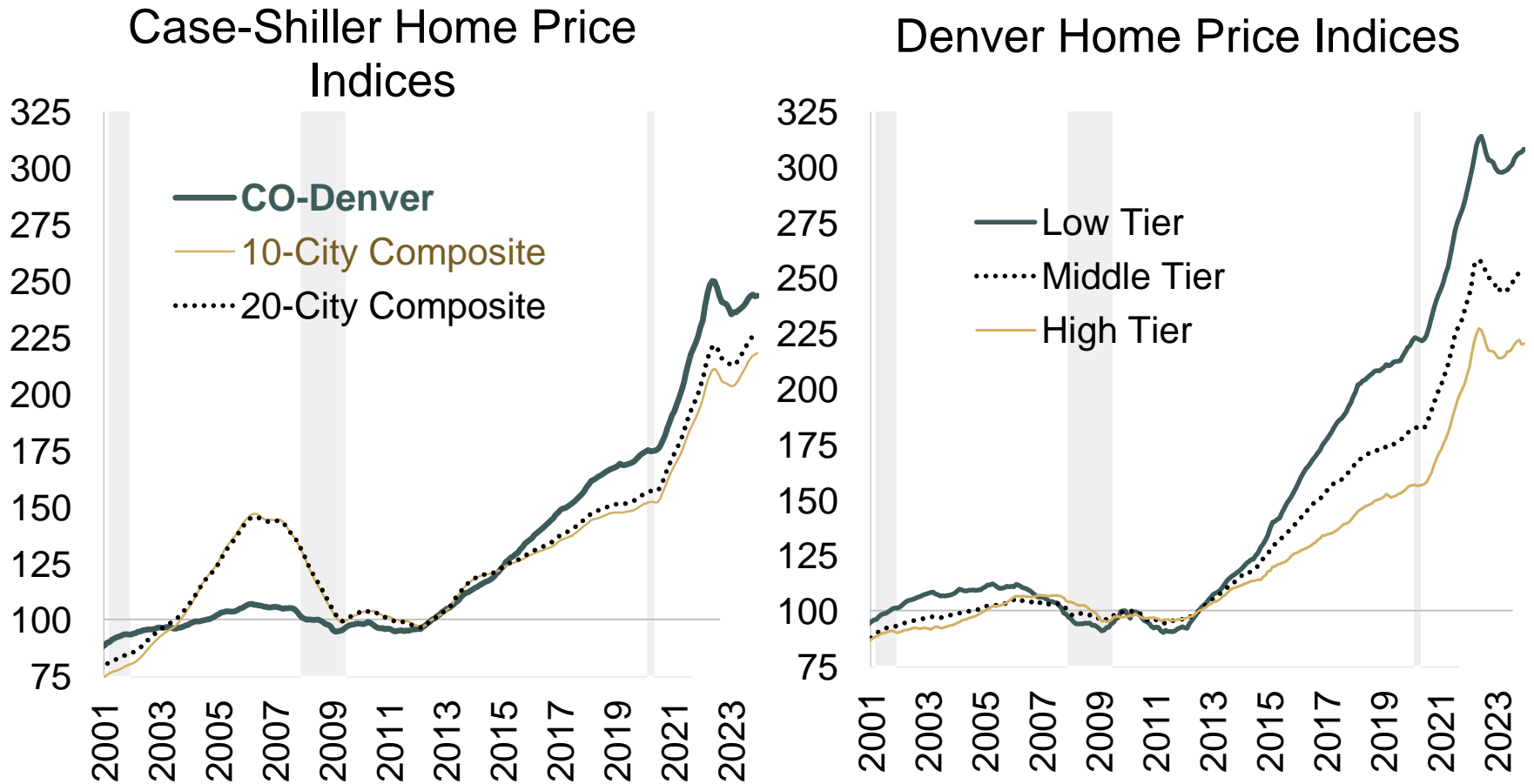
Federal Reserve expected to start cutting interest rates in 2024

Effective Federal Funds Rate Percent



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

Home prices resume rise in 2023, Denver homes down 2.5 percent compared to June 2022

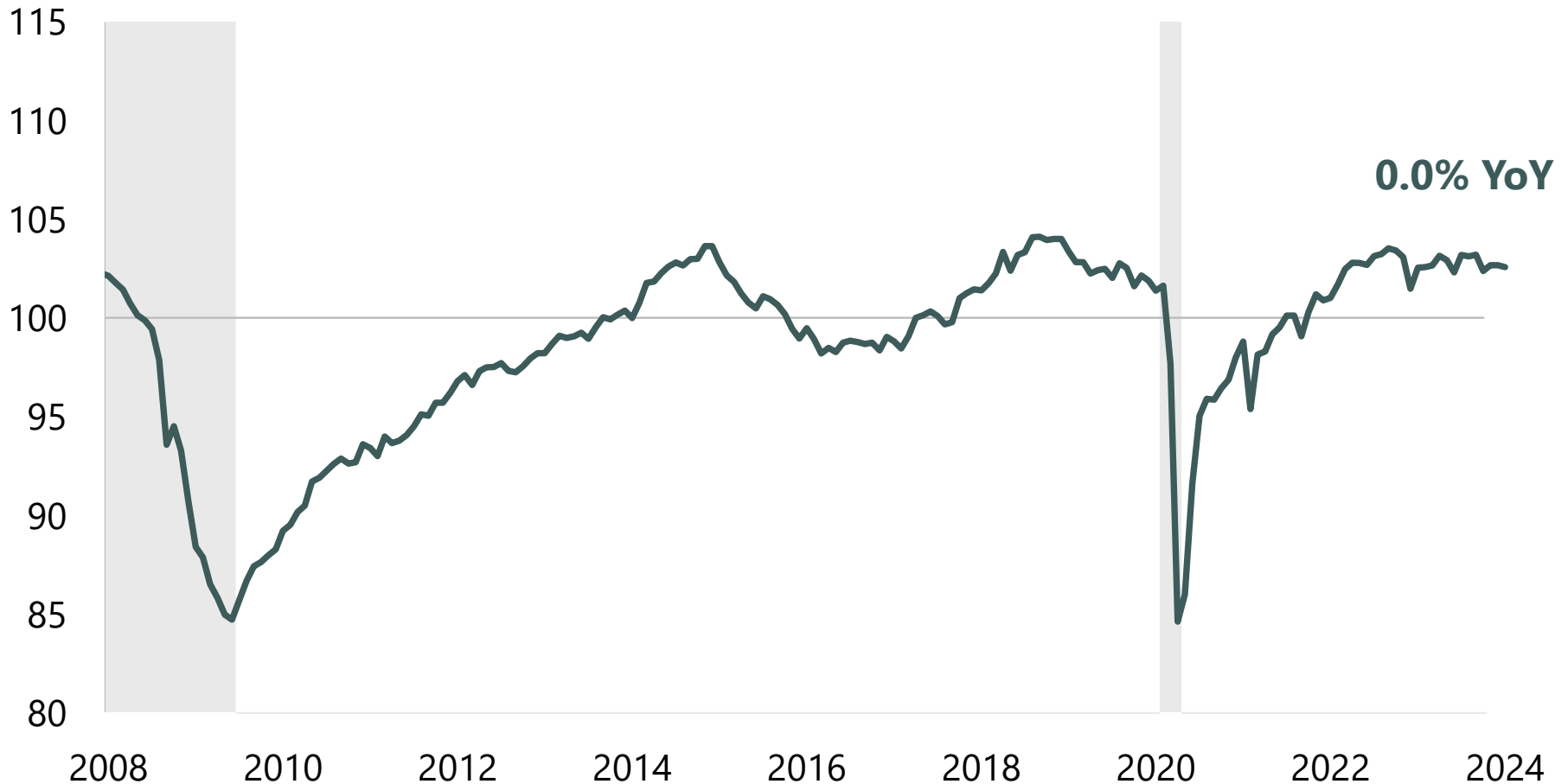


Source: S&P Dow Jones Indices LLC. Data are seasonally adjusted and are through December 2023

Industrial production of manufacturing, mining, and utilities remains weak with slow improvement

Industrial Production Index

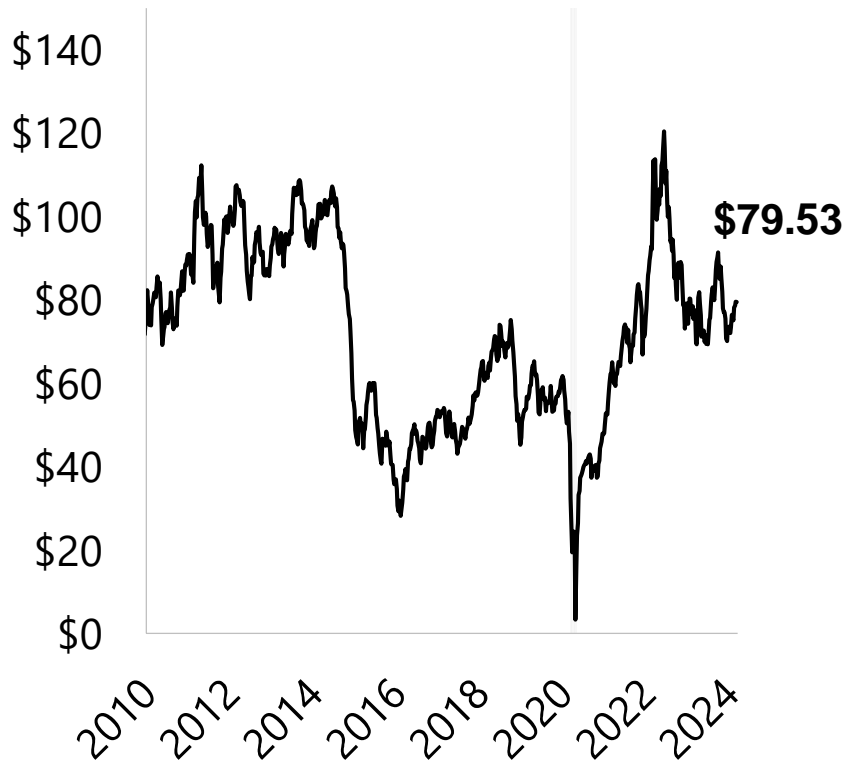
Index, 2017=100



Source: Federal Reserve Board of Governors. Data are through January 2024.

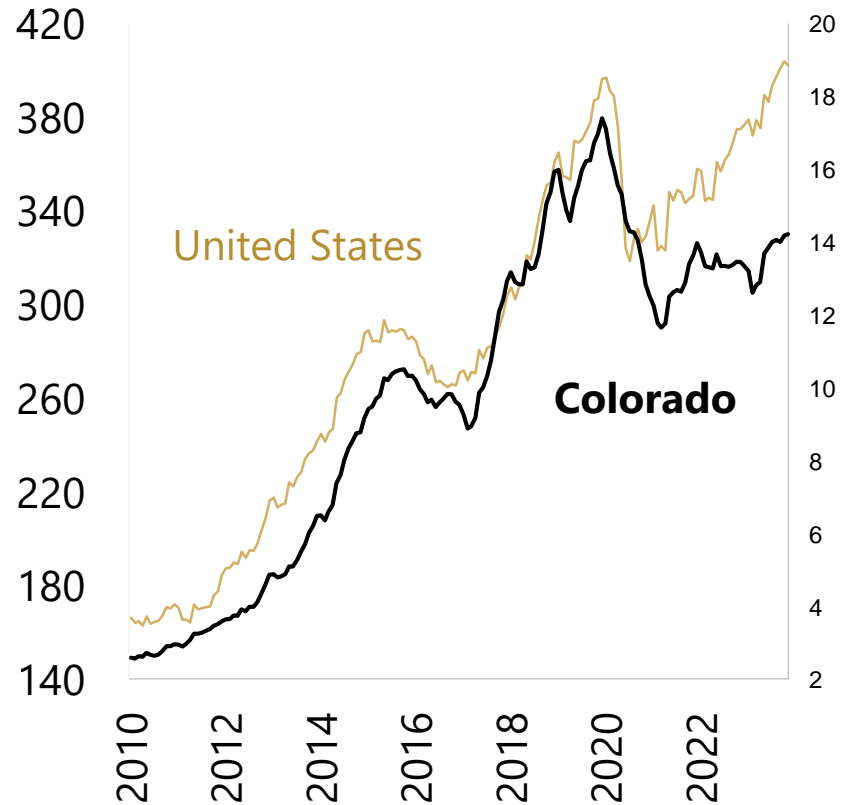
Energy Market Dynamics

Crude Oil Price, West Texas Intermediate
Dollars per Barrel



Source: U.S. Energy Information Administration. Weekly average prices. Data are not seasonally adjusted and are through the week of March 8, 2024.

Crude Oil Production
Millions of Barrels per Month



Source: U.S. Energy Information Administration. Data are shown as a three-month moving average and are not seasonally adjusted. Data are through November 2023.

General Fund Budget Outlook



General Fund revenue outlook upgraded modestly

Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes

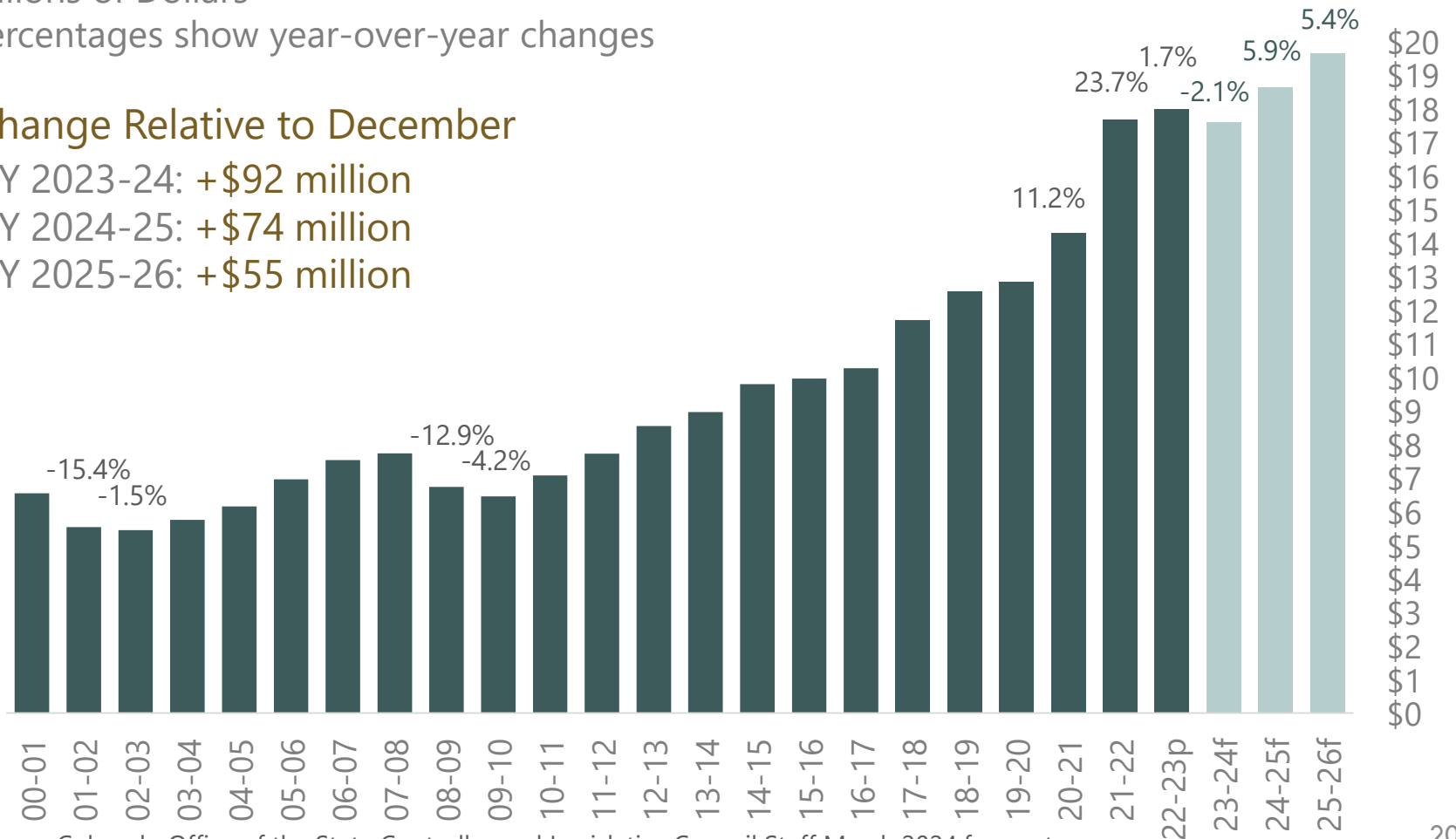
Change Relative to December

FY 2023-24: +\$92 million

FY 2024-25: +\$74 million

FY 2025-26: +\$55 million

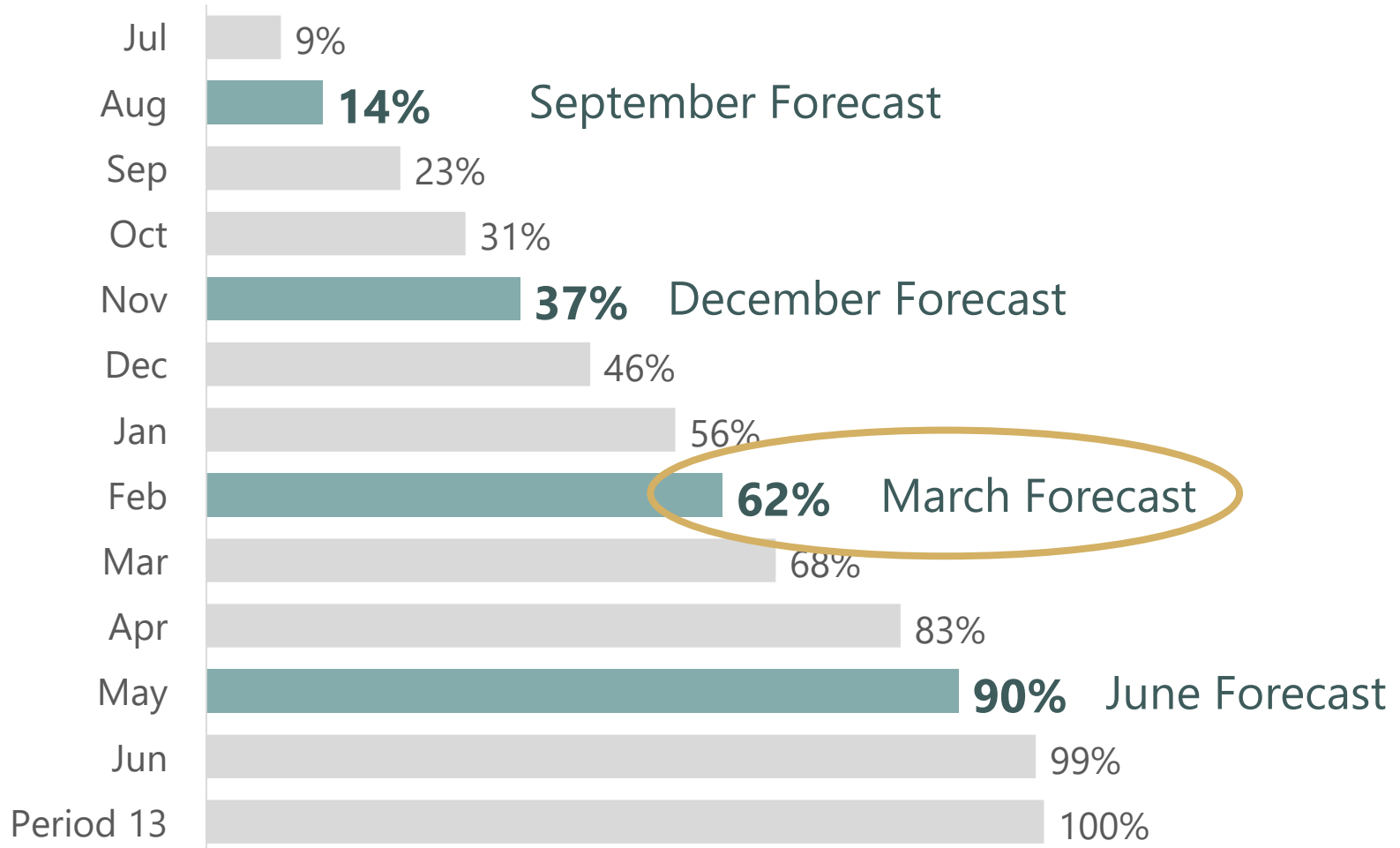
March 2024
Expectations



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

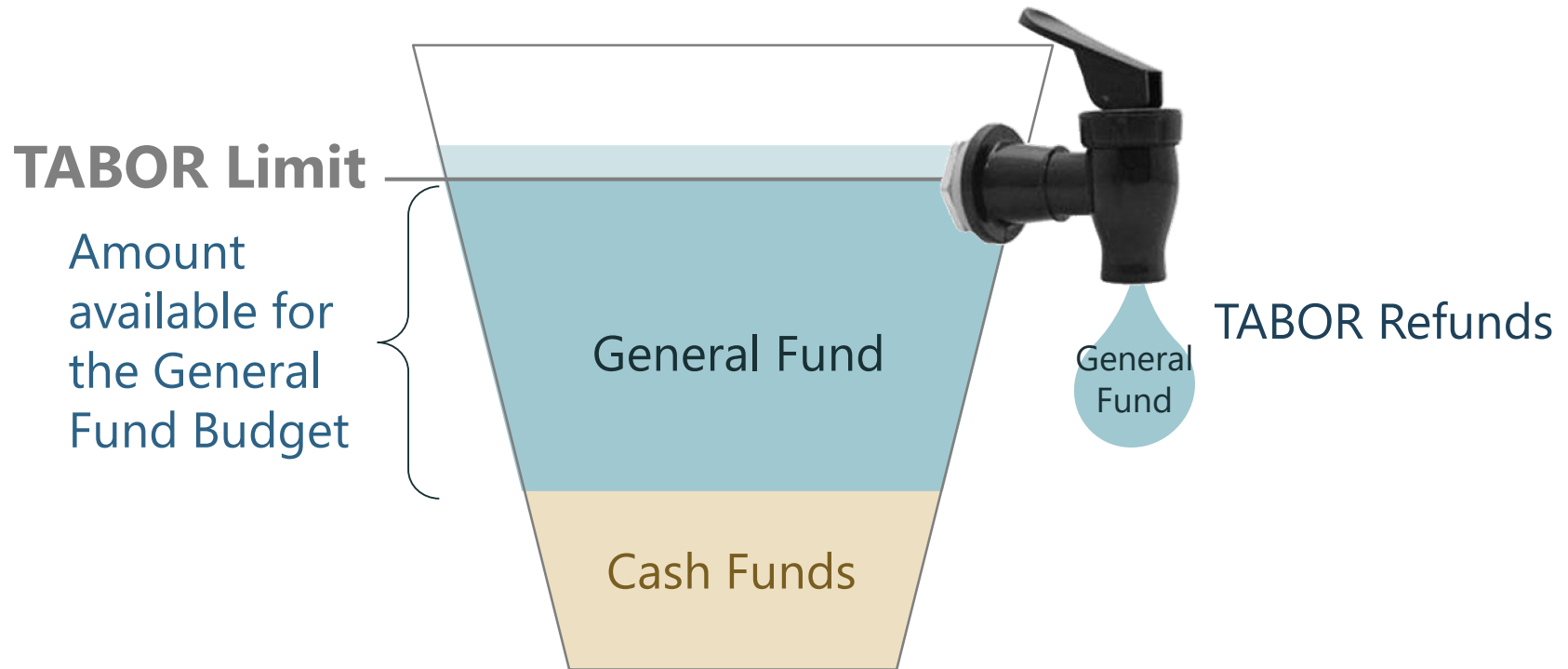
How much do we know about FY 2023-24?

Available General Fund Collections Data as a Share of Total Fiscal Year Collections



TABOR Refunds are paid from the General Fund

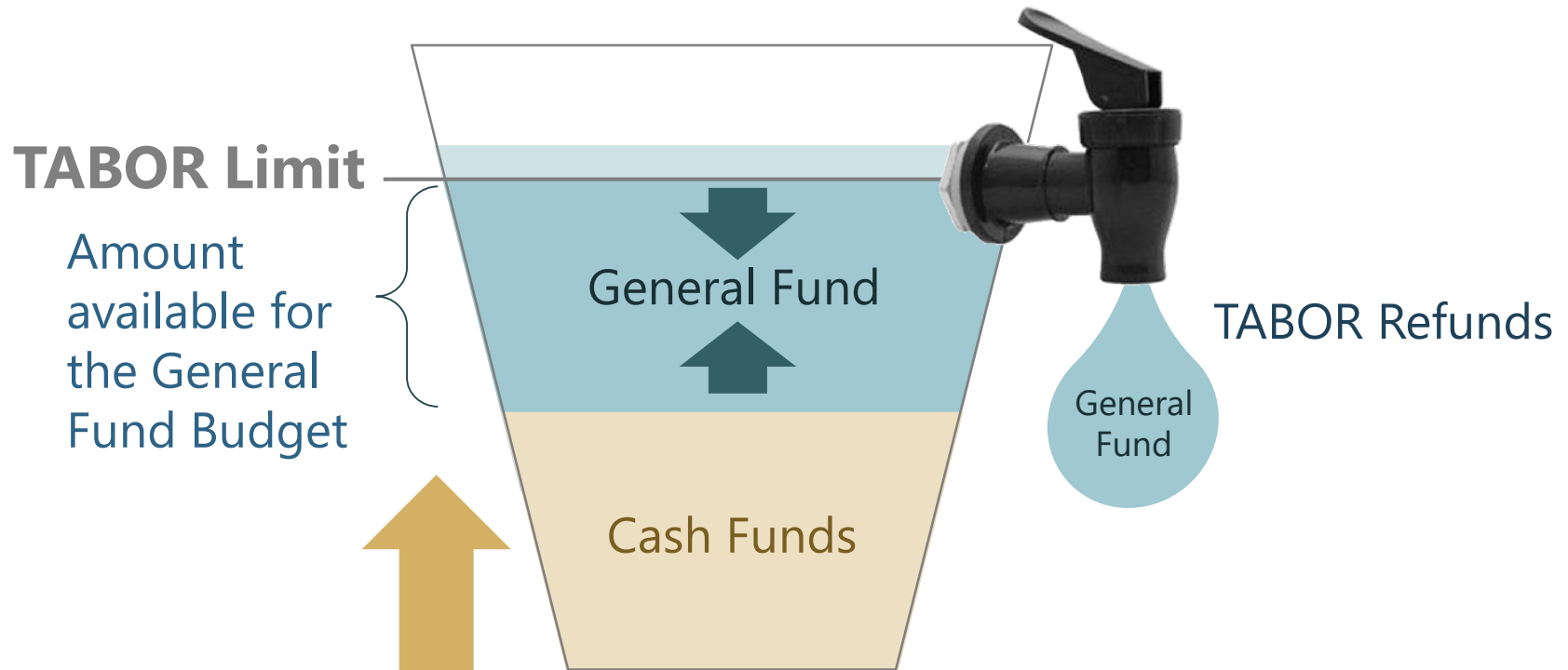
In a TABOR surplus situation...



General Fund dollars in = General Fund dollars out

TABOR Refunds are paid from the General Fund

In a TABOR surplus situation...



Cash Fund dollars in = General Fund dollars out

Cash fund revenue is increasing, which puts pressure on the budget

FY 2023-24: \$2.85 billion total, +3.4% or \$94 million

FY 2024-25: \$2.98 billion total, +4.6% or \$130 million

FY 2023-24 components:

- Transportation: +14.6% or \$185 million
 - Primarily RUF (+\$82M) and RSS (+\$39M)
- Severance: -40.3% or \$151 million
- “Other Cash Funds”: +7.4% or \$59 million
 - FYTD through January 2024: +\$46 million or 11.2%
 - Risk of about \$50 million additional TABOR refund obligation for insurance premium taxes in Health Insurance Affordability Enterprise

TABOR Outlook

Revenue Subject to TABOR
Dollars in Billions

FY 2024-25 TABOR Growth Factor

Inflation: +5.2%

Population: +0.6%

Total: +5.8% or \$1.05 billion

versus December forecast
+6.1% or \$1.10 billion
Difference of **-\$54 million**

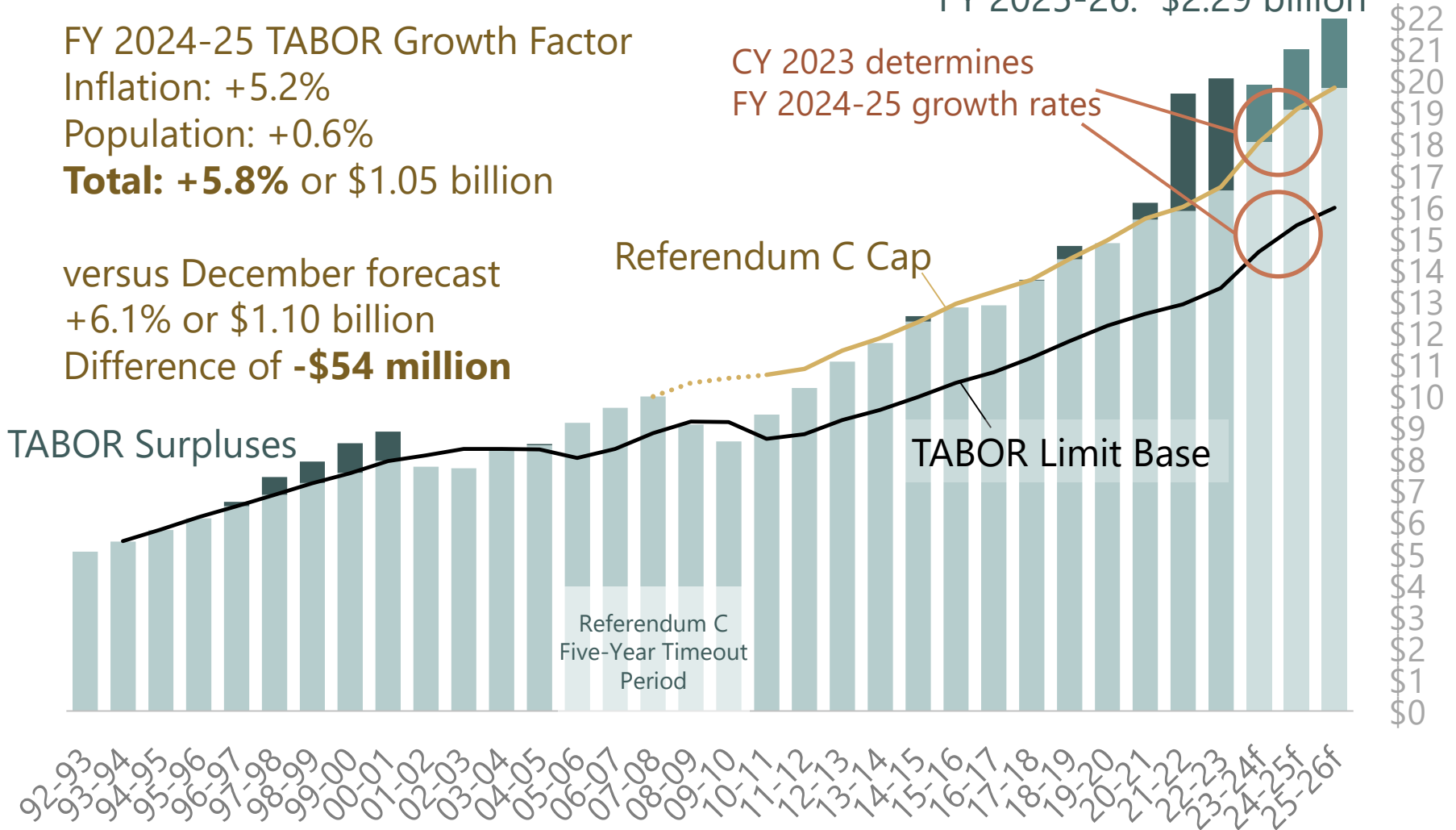
Revenue Above the Ref C Cap

FY 2022-23: \$3.56 billion

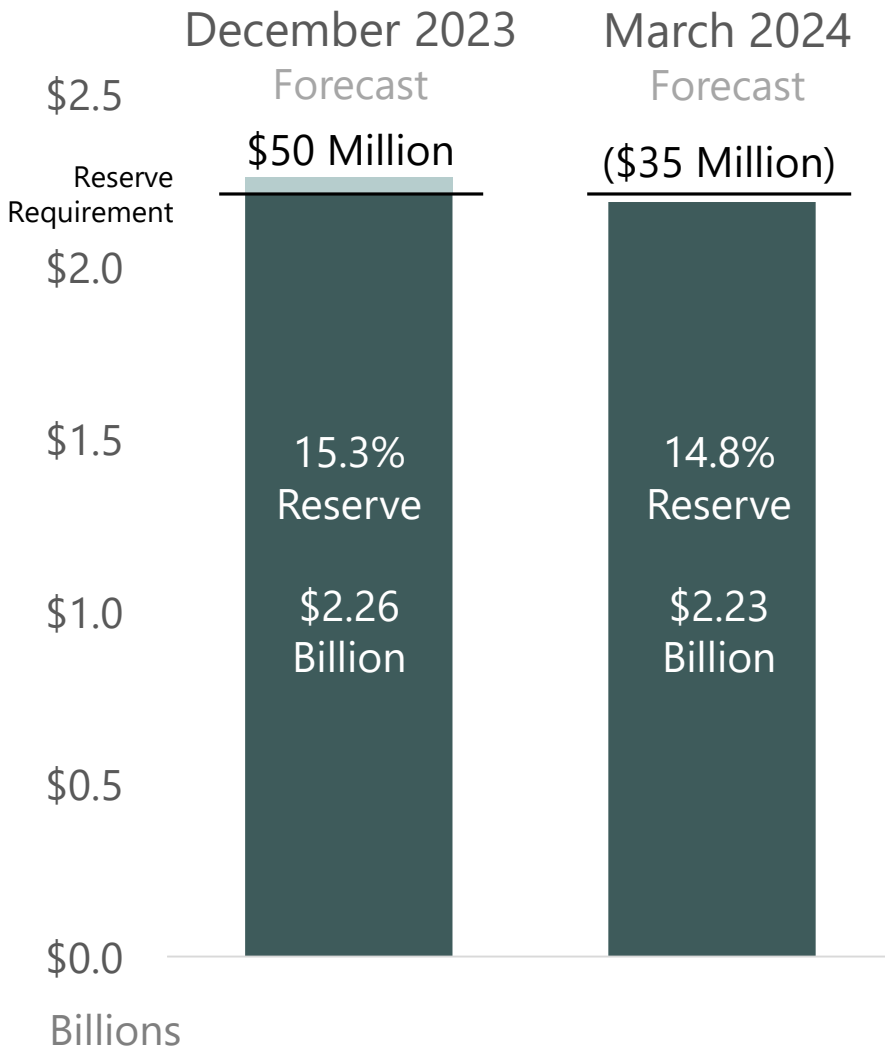
FY 2023-24: \$1.82 billion

FY 2024-25: \$1.91 billion

FY 2025-26: \$2.29 billion



Current Year | FY 2023-24 General Fund Reserve



Changes since the December forecast:

Supplemental budget package:

- **appropriations** increased by \$86 million (-)
- \$27 million in **transfers** (-)
- **reserve requirement** increased by \$13 million (-)
- total change of **\$126 million (--)**

Revenue and TABOR refund

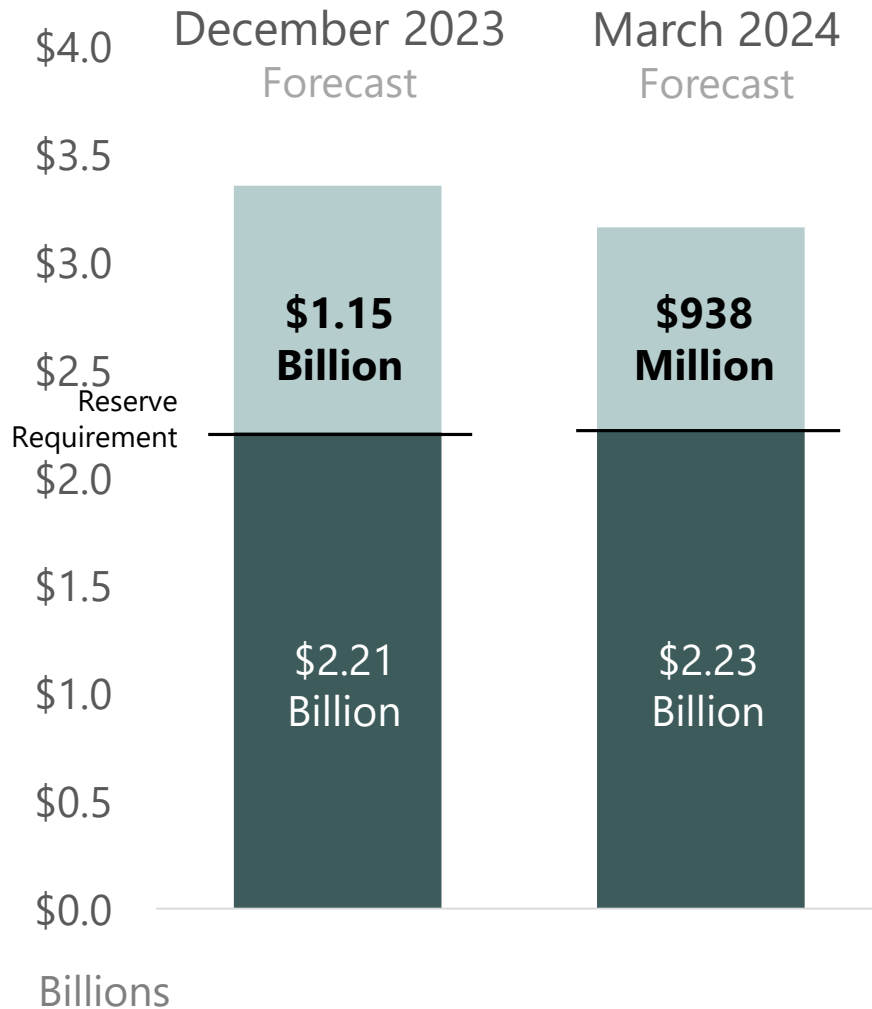
expectations both increased; on net, **\$45 million less** in adjusted TABOR refund obligation (+)

Rebates and expenditures forecast revised down by \$8 million (+)

Net transfers from the GF increased by \$11 million (-)

Source: Legislative Council Staff forecasts based on current law.

Budget Year | FY 2024-25 Scenario A



Changes since the December forecast:

\$72 million lower **beginning balance** (-)

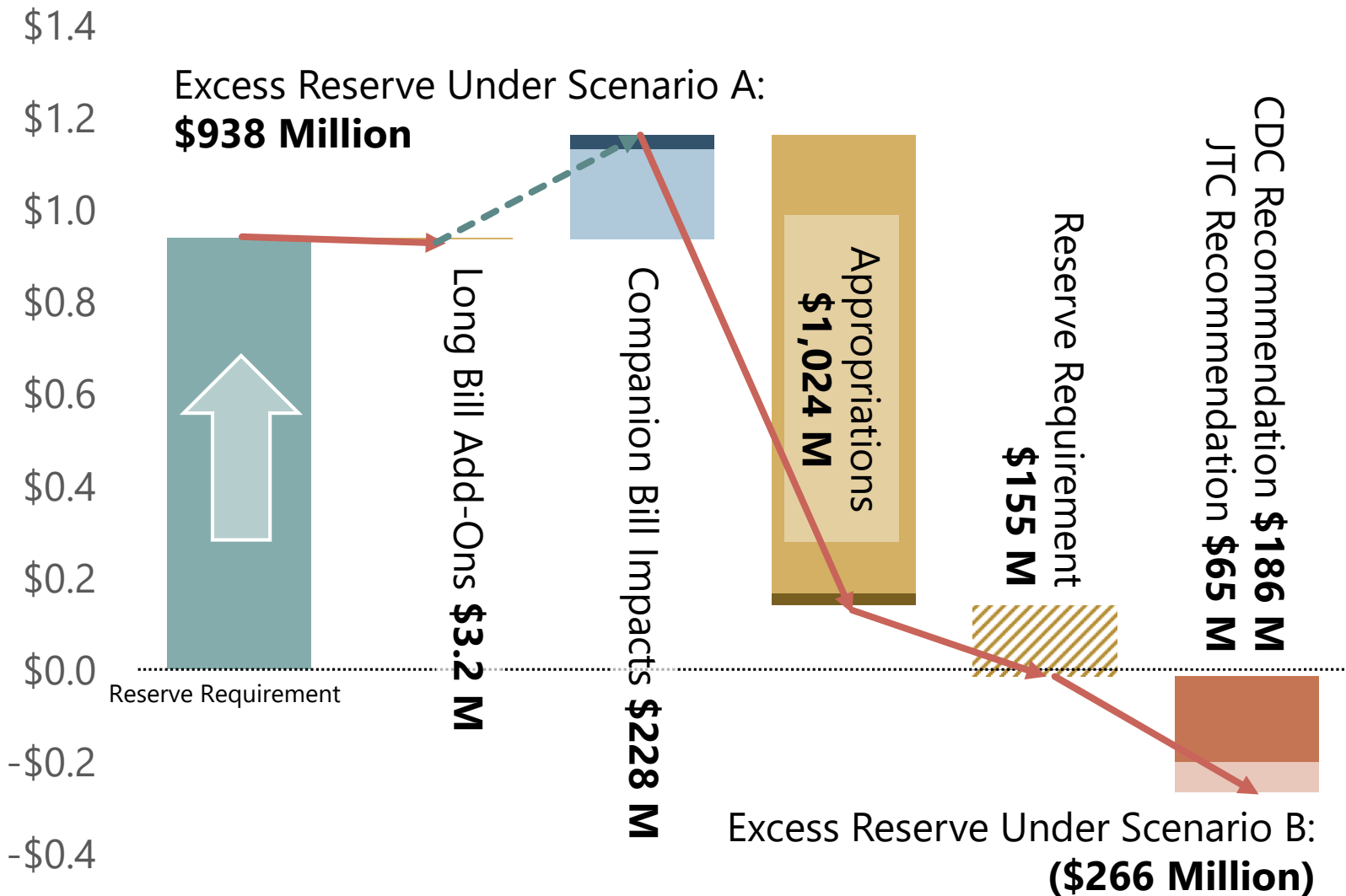
Higher assumed **base appropriations** and **reserve requirement**, \$99 million total (-)

Revenue and **TABOR refund** expectations both increased; on net, **\$43 million more** in adjusted TABOR refund obligation (-)

Net transfers from the GF decreased by \$6 million (+)

Source: Legislative Council Staff forecasts based on current law.

Budget Year | FY 2024-25 **Scenario B**



Risks to the Budget Outlook

Recession risk is budget risk

- No such thing as a “normal” recession
- Taxpayer response has a major impact on revenue

Cash Fund revenue variance is budget risk

Most important determinant of the budget is your decisionmaking

Questions?

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“Other Cash Funds”

Group of about 400 cash funds, FY 2022-23 total: ~\$800 million
FYTD through January 2024: **+\$46 million or 11.2%**

Largest gainers:

- Adult Dental Fund +\$16.5 million
- Public Safety Communications Fund +\$6.5 million
- IT Revolving Fund +\$5.5 million
- Dept of State Cash Fund +\$4.8 million
- Capital Construction Fund +\$4.7 million
- Employment Support Fund +\$4.5 million
- Disability Support Fund +\$4.2 million

Many of the largest losers are in Judicial, receive fines:

- Offender Services Fund -\$6.2 million
- Judicial Collection Enhancement Fund -\$2.7 million
- Correctional Treatment Cash Fund -\$2.3 million