



March 2022 | Legislative Council Staff

# Economic & Revenue Forecast

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Presentation to the Joint Budget Committee

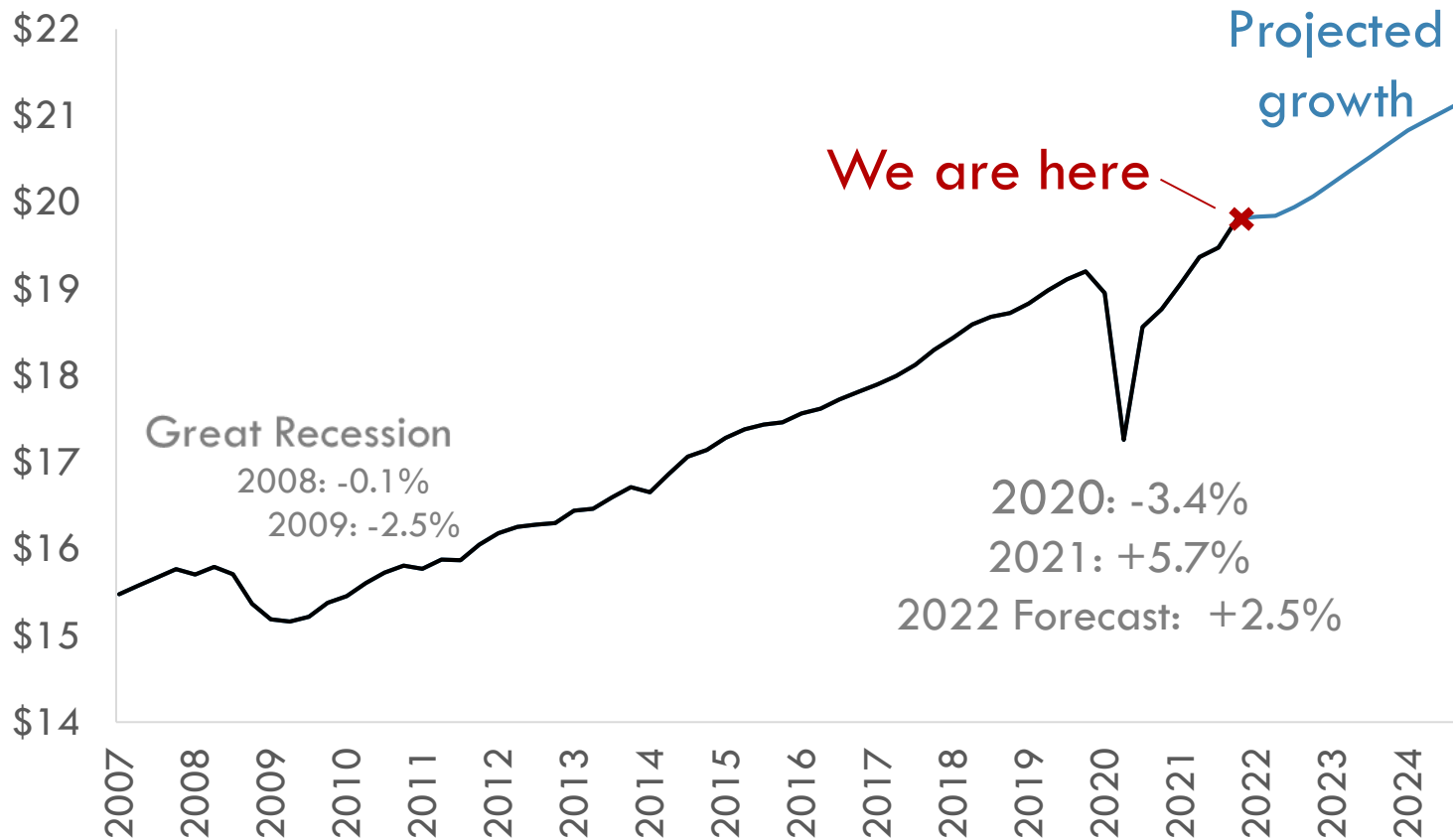
March 17, 2022

# Economic Outlook



# The economy continues to recover, near-term risks are elevated

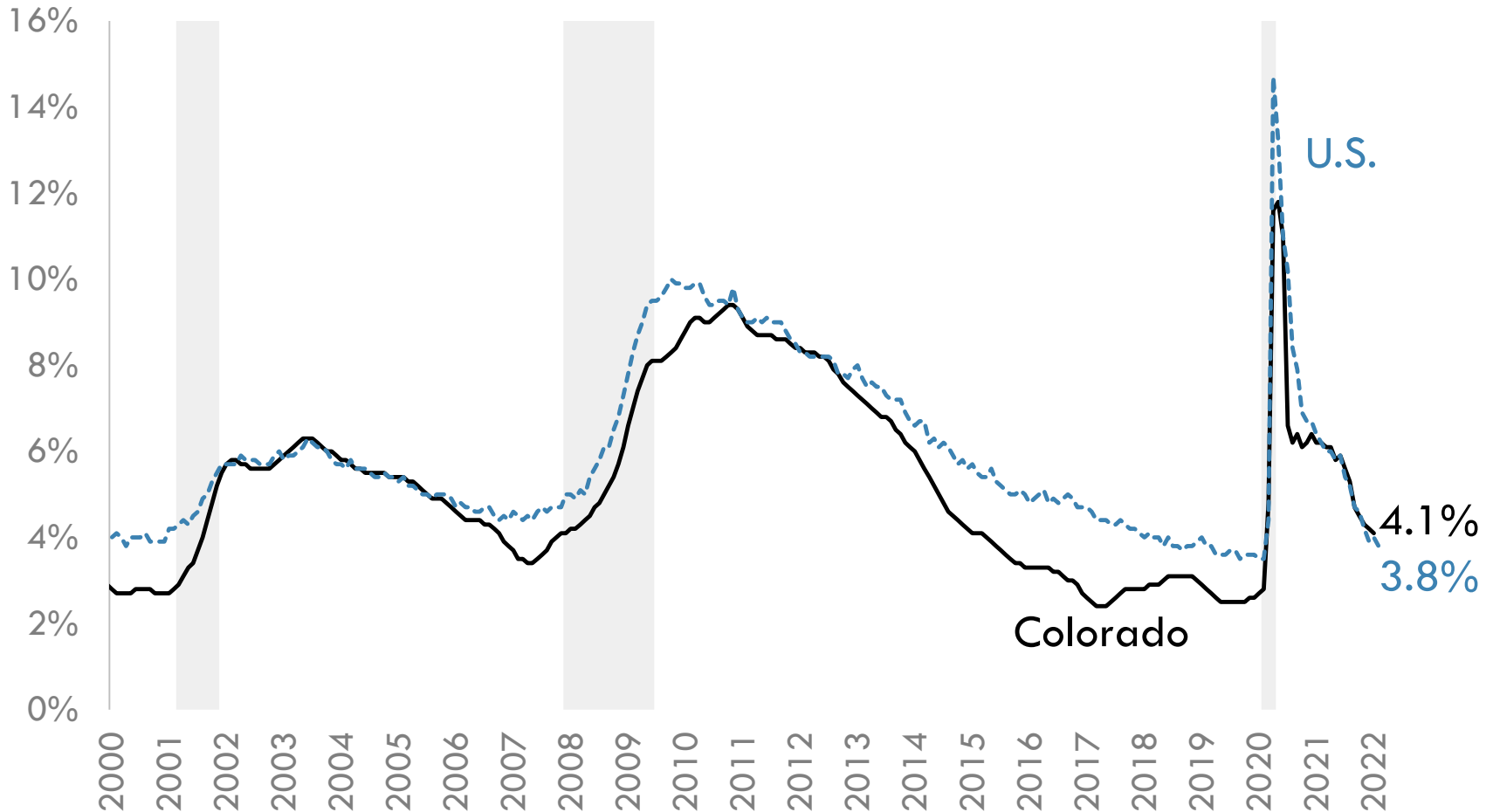
Real U.S. Gross Domestic Product  
*Dollars in Trillions*



Source: U.S. Bureau of Economic Analysis and Legislative Council Staff March 2022 projections.  
Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

# Colorado's unemployment rate fell to 4.1 percent in January 2022

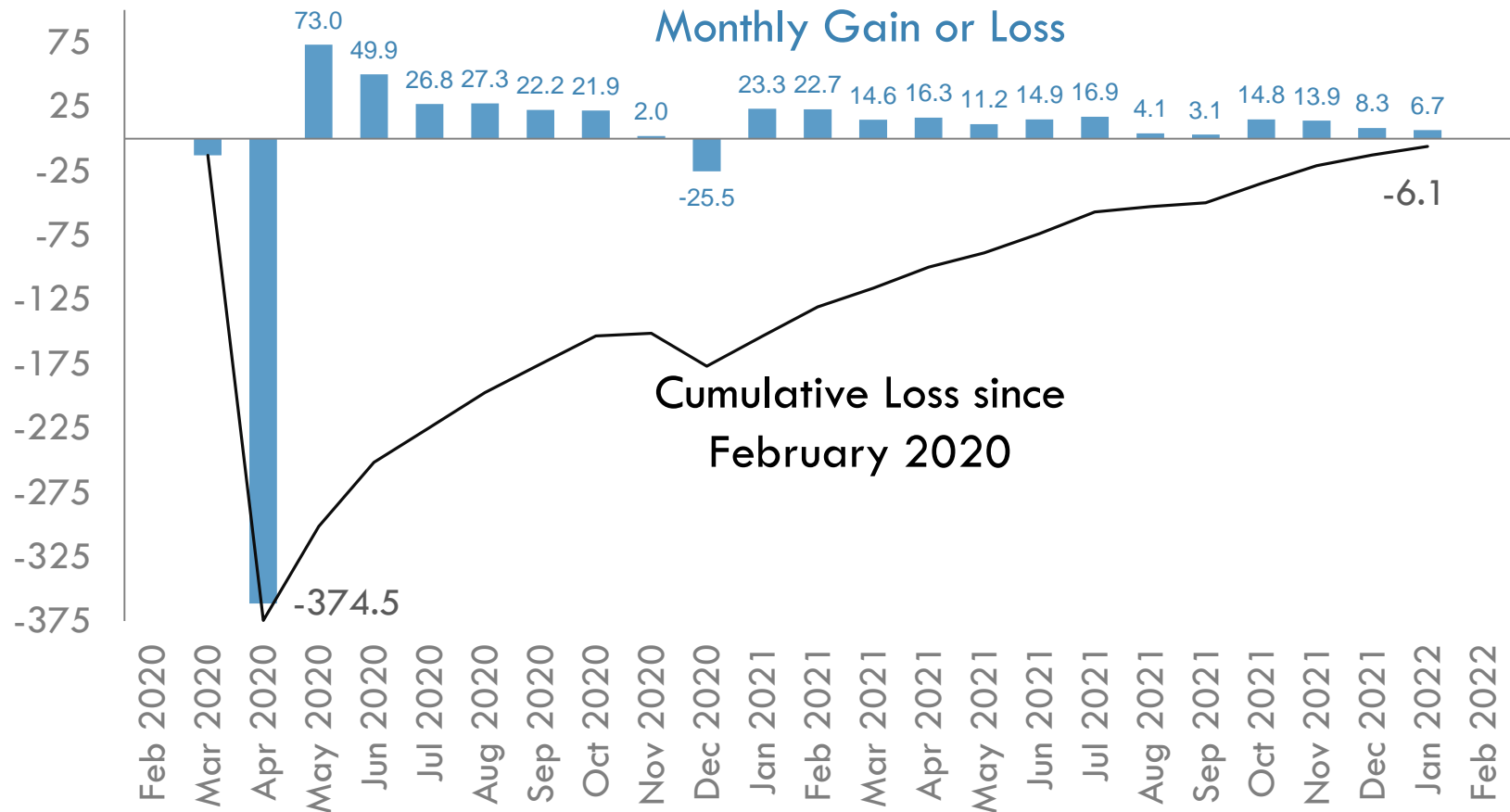
## Unemployment rates



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

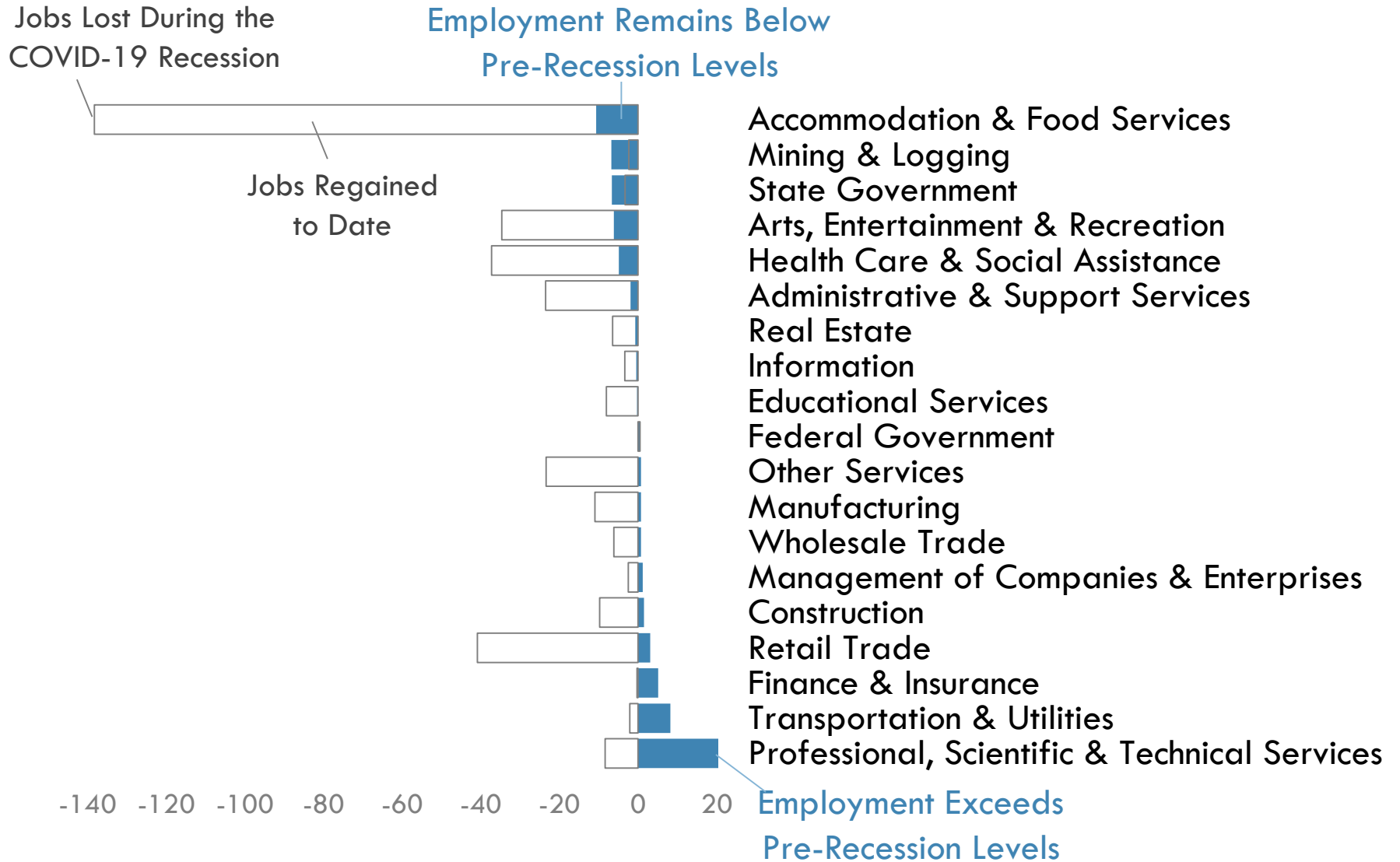
# Colorado has regained 98.4 percent of jobs lost since the pandemic began

Change in Colorado Employment  
*Thousands of Jobs*



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

# Accommodation & food services leads job gains through January 2022, still down 10,700 jobs

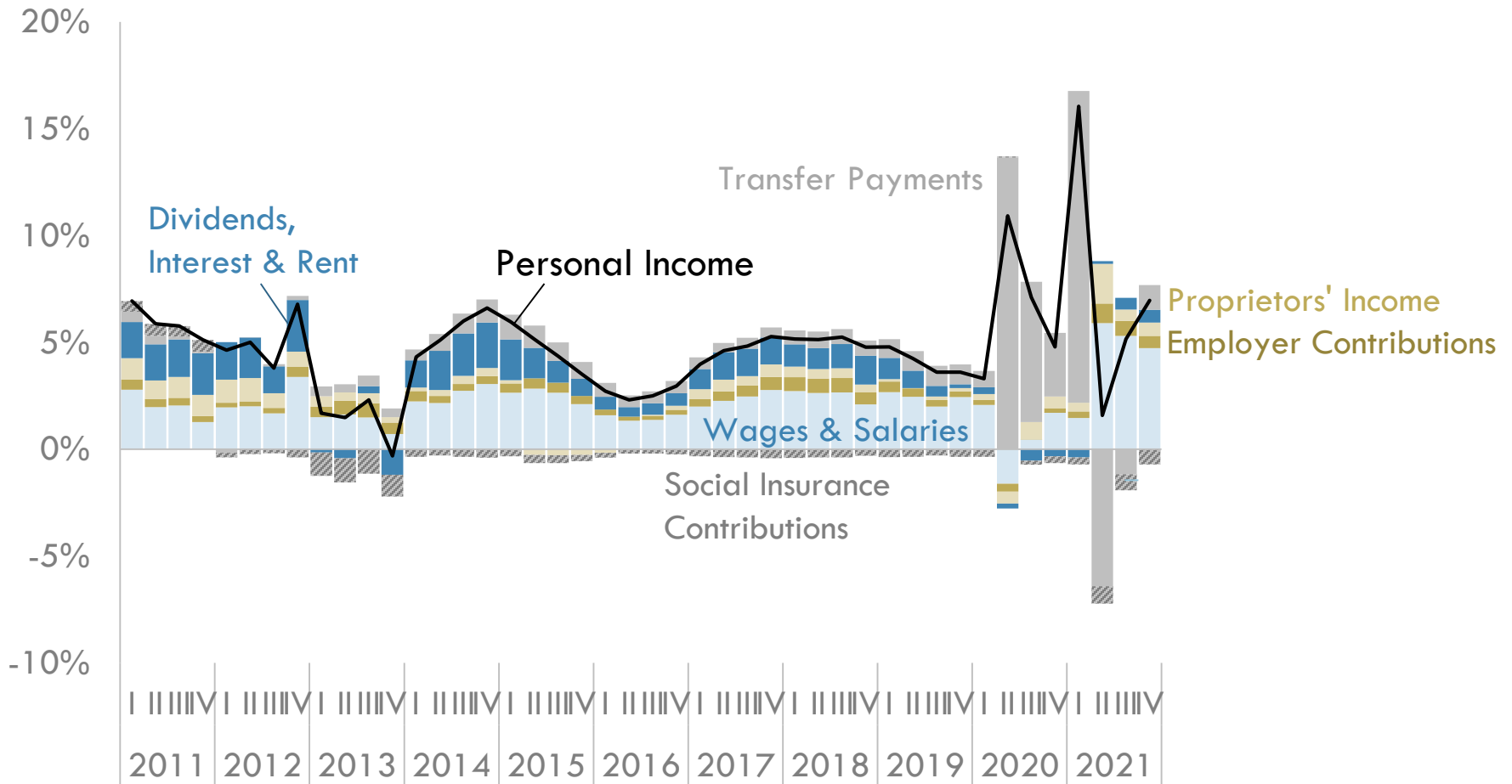


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted.

# Rising wages offset declining transfer payments

## U.S. Personal Income and Its Contributions

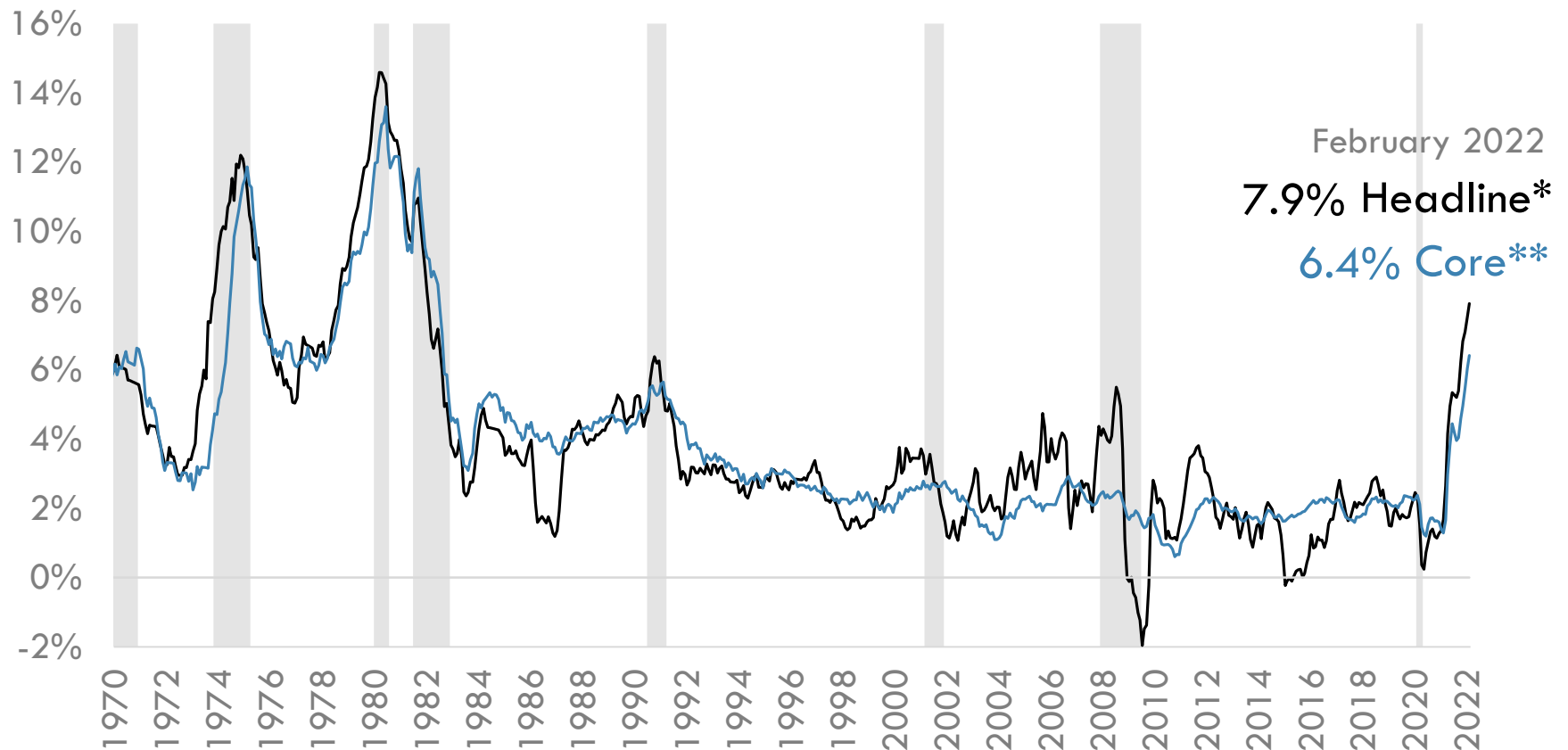
Contributions to Percent Change, Year-over-Year



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.

# Inflationary pressure continues, U.S. city average forecast to average 7.1 percent in 2022 and 3.9 percent in 2023

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



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.

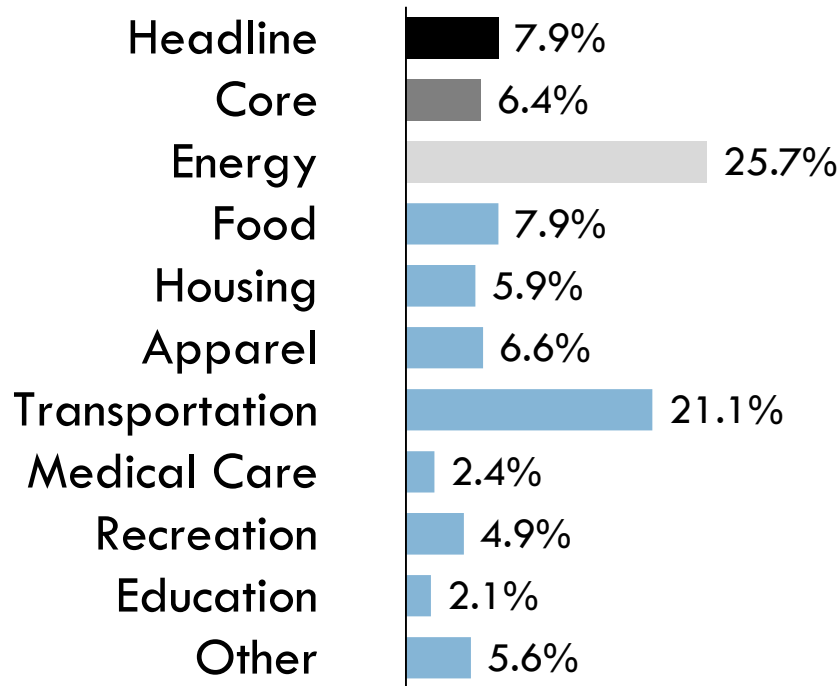
\*Headline inflation includes all products and services. \*\*Core inflation excludes food and energy prices.



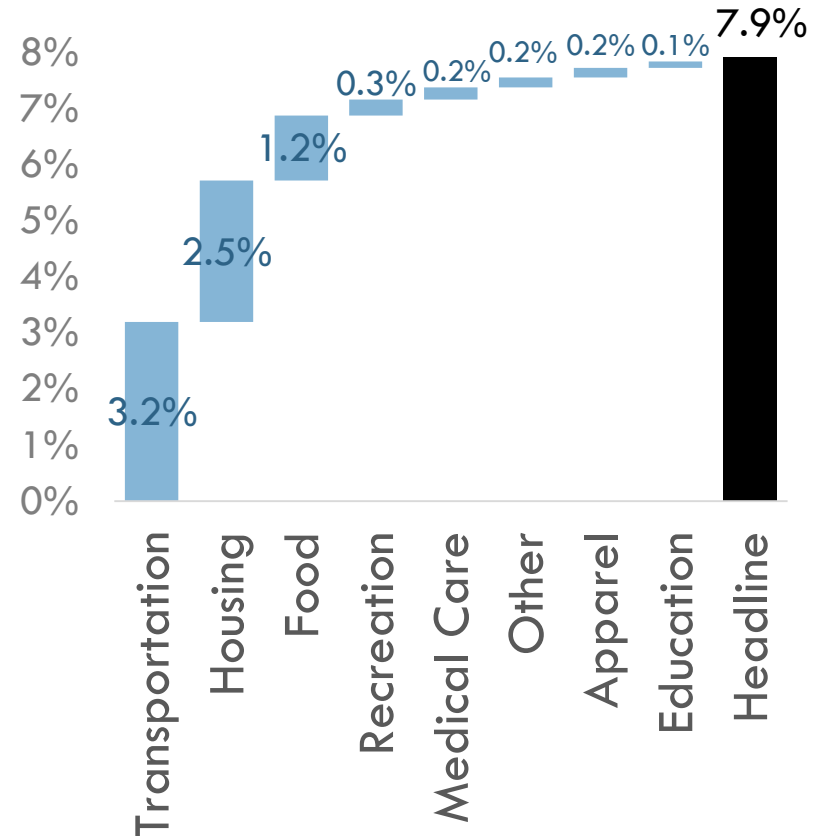
# Transportation and energy contribute to inflationary pressure

U.S. City Average CPI-U, February 2022

*Year-over-Year Change*



*Contribution to Headline Inflation*



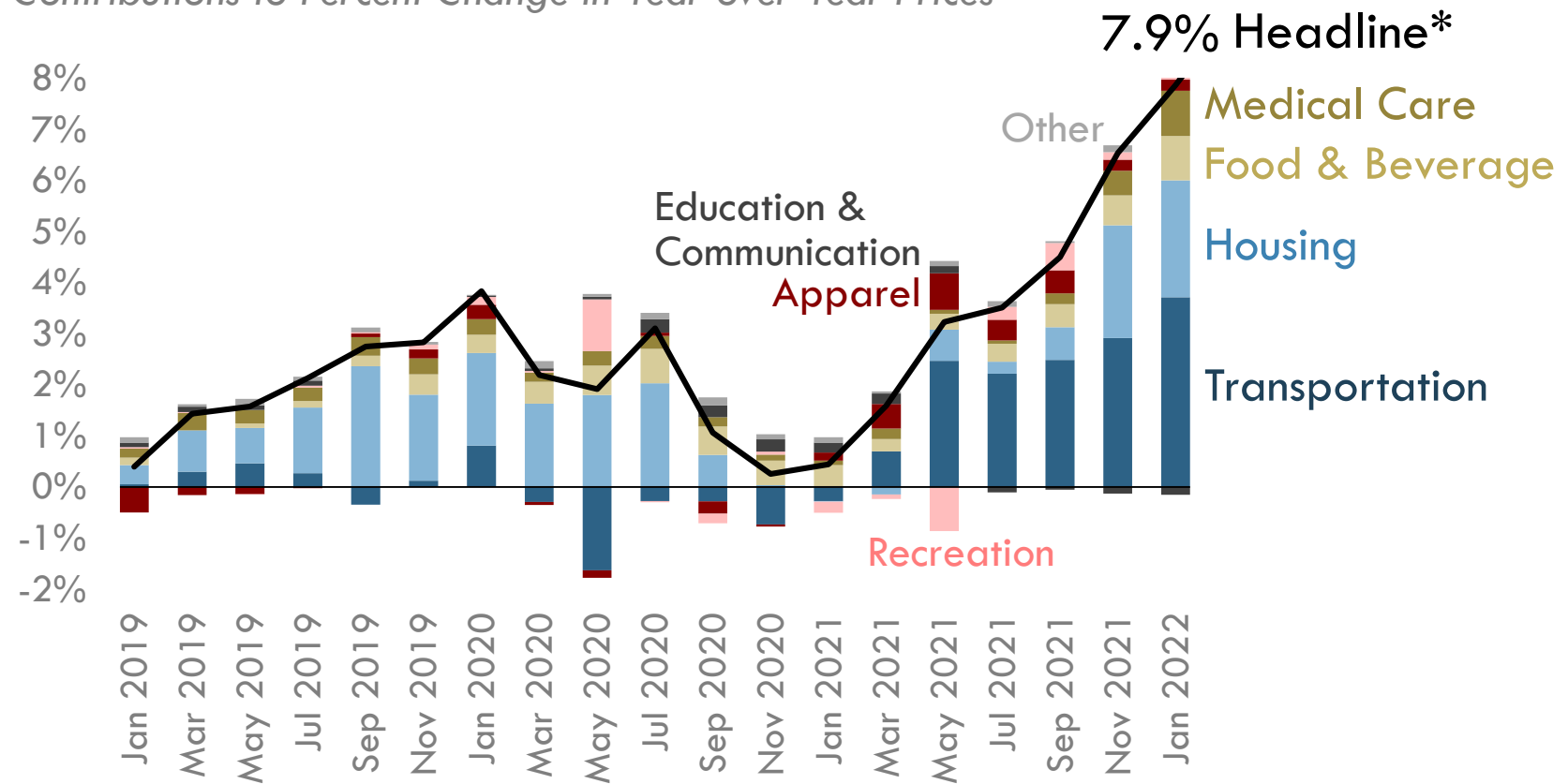
Source: U.S. Bureau of Labor Statistics.

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

# Inflation also on the rise in Colorado, projected to average 7.0 percent in 2022 and 3.8 percent in 2023

Denver-Aurora-Lakewood Consumer Price Index (CPI-U)

Contributions to Percent Change in Year-over-Year Prices



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.

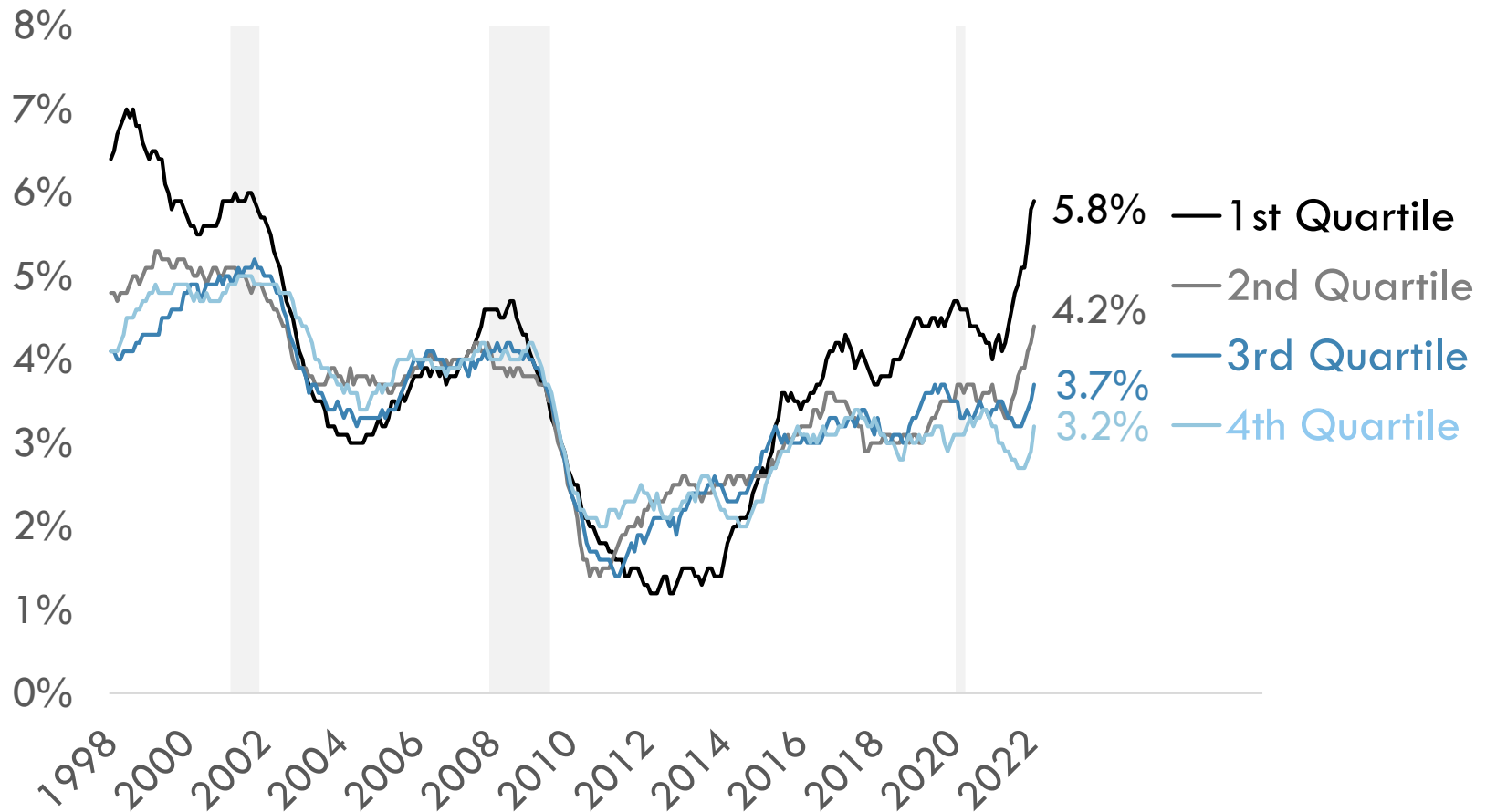
# Pandemic challenges compounded by emerging risks

- Lingering pandemic-related disruptions compounded by accelerating inflation and the war in Ukraine
- **Downside:** Continued supply and demand mismatches, inflation and tighter monetary policy, waning fiscal stimulus, geopolitical uncertainty
- **Upside:** Near-term resolution to war in Ukraine, rapid return to spending on services, productivity growth, fiscal stimulus
- Near-term risks are weighted to the downside with an elevated risk of recession during the forecast period

# Supplemental Economic Outlook Slides

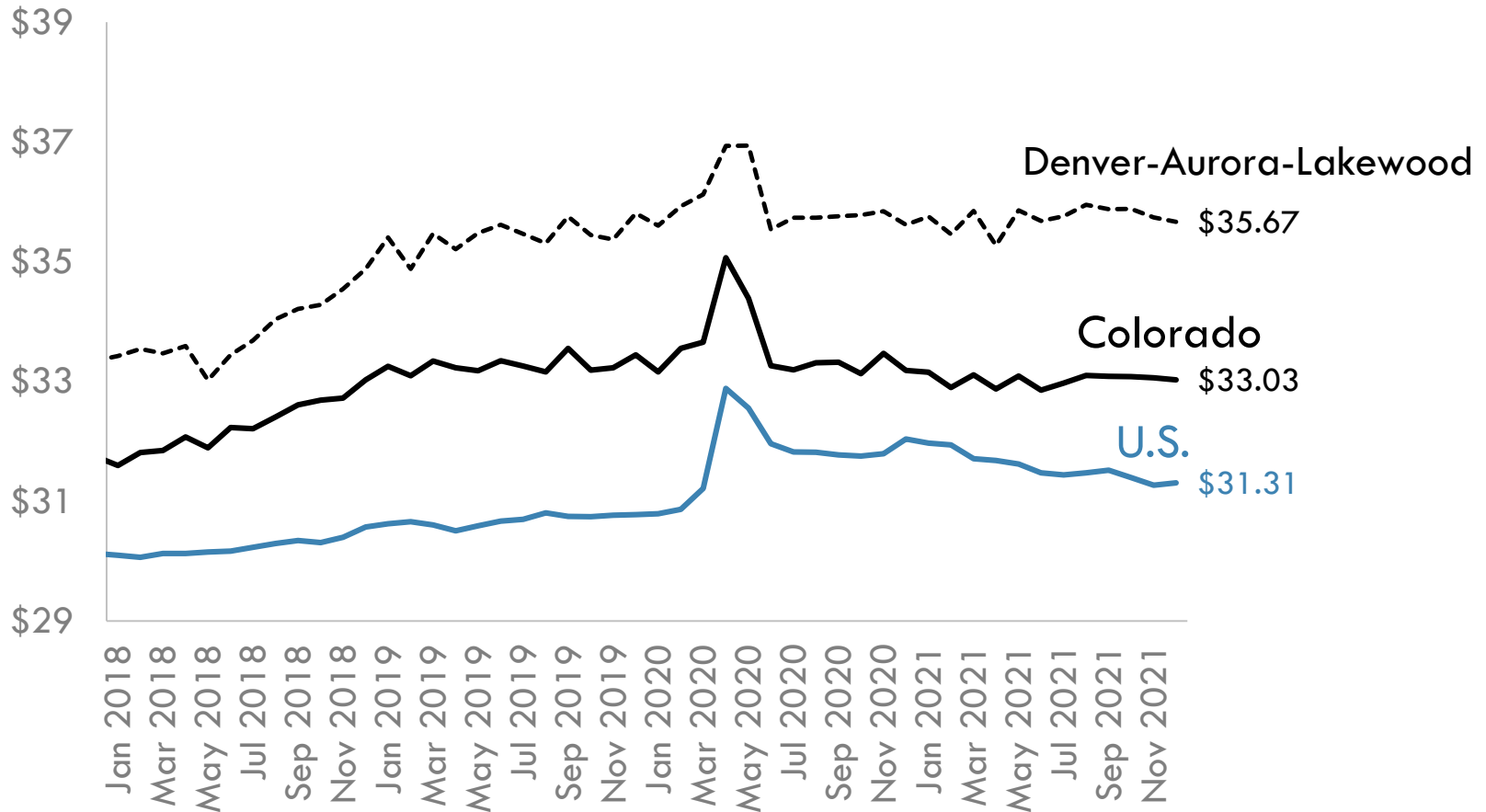
# U.S. wage growth varies by wage quartile

Twelve-month moving averages of monthly median wage growth, lowest 25 percent (1<sup>st</sup> quartile) to highest 25 percent (4<sup>th</sup> quartile)



# Real Wages Remain Flat

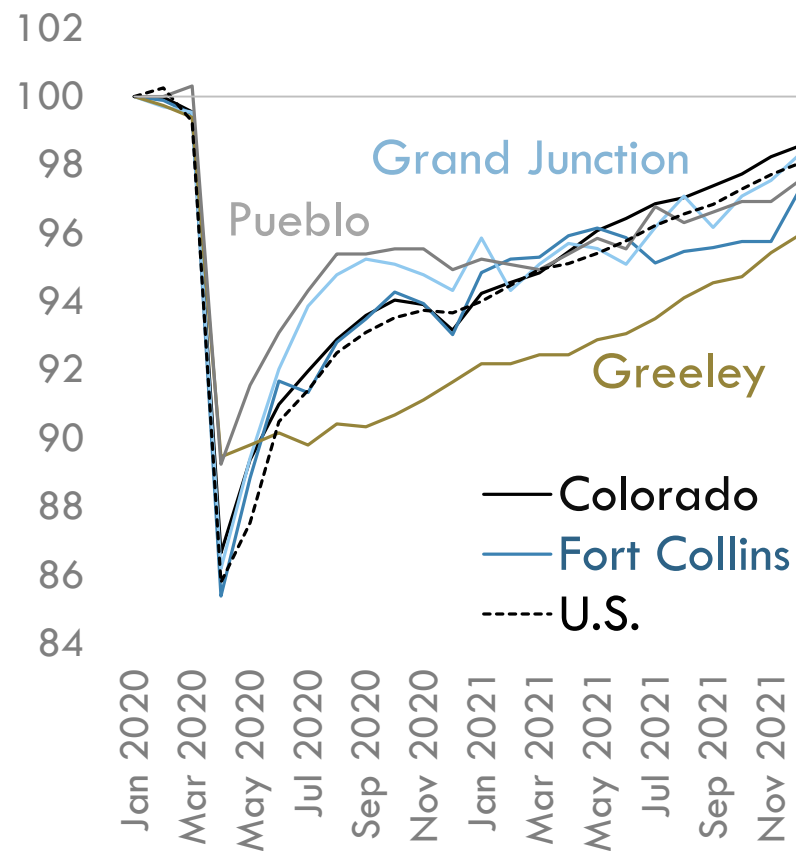
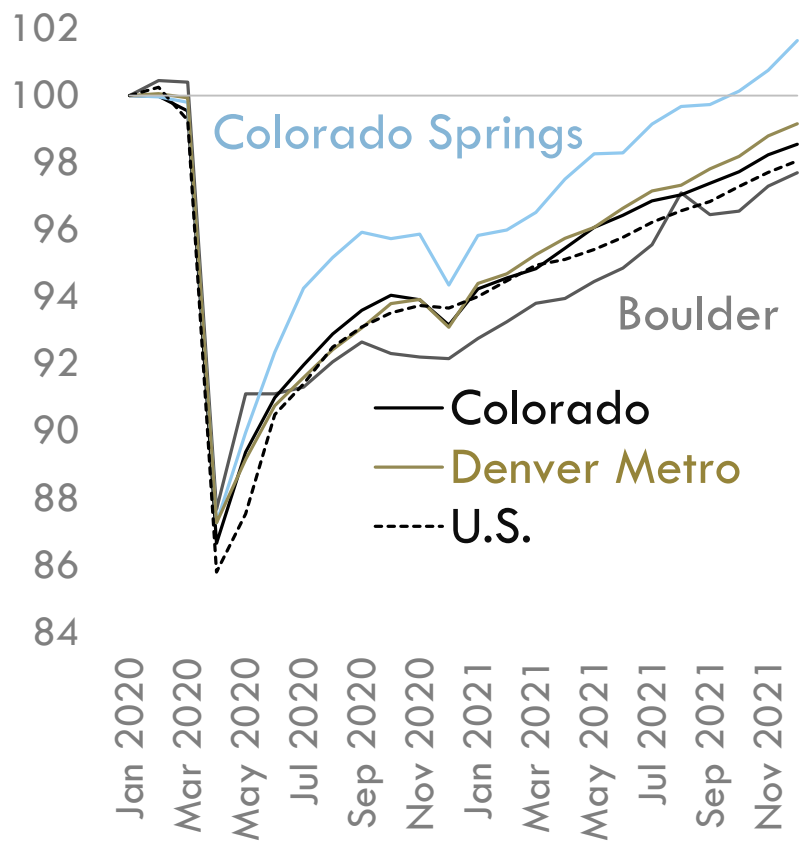
Real Average Hourly Wages  
2021 Dollars



# Employment recovery varies across the state

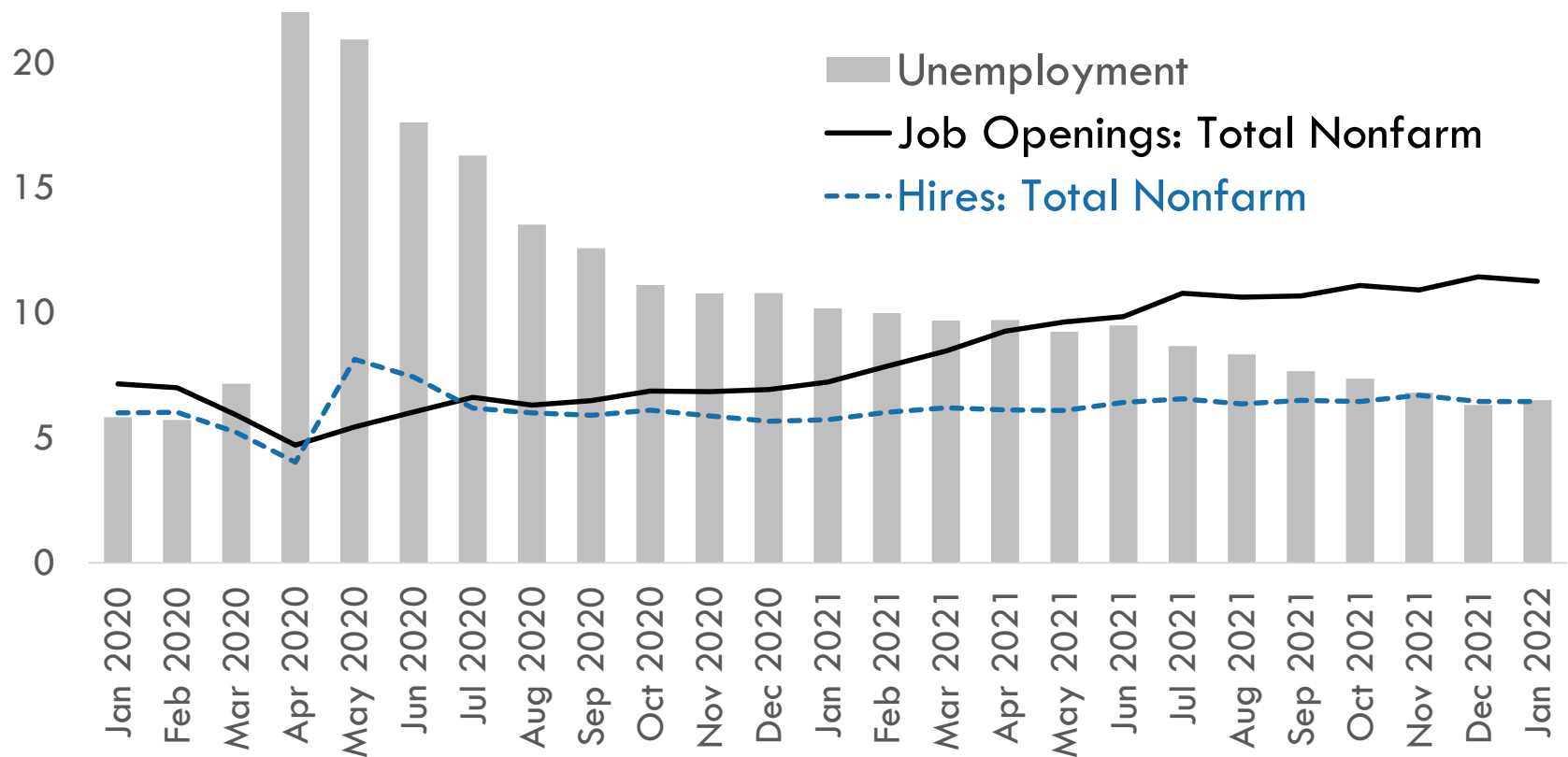
## Employment Growth Since January 2020

January 2020 = 100



# Job openings surpass unemployed, outpace hiring activity

U.S. Unemployment, Job Openings, and Hires  
*Millions*

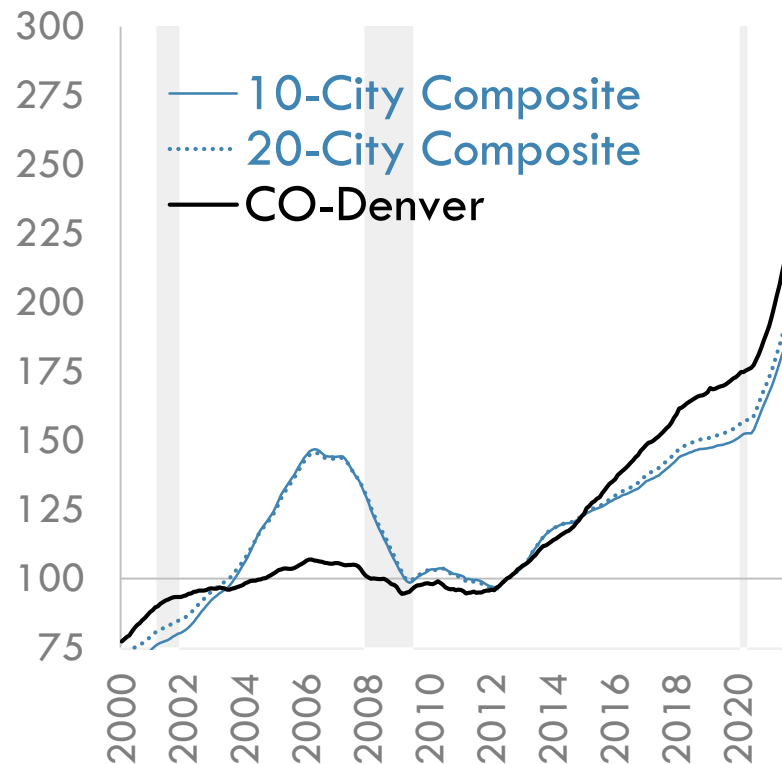


Source: U.S. Bureau of Labor Statistics, Current Population Survey (CPS) and Job Openings and Labor Turnover Survey (JOLTS).  
Seasonally adjusted. Data through January 2022.

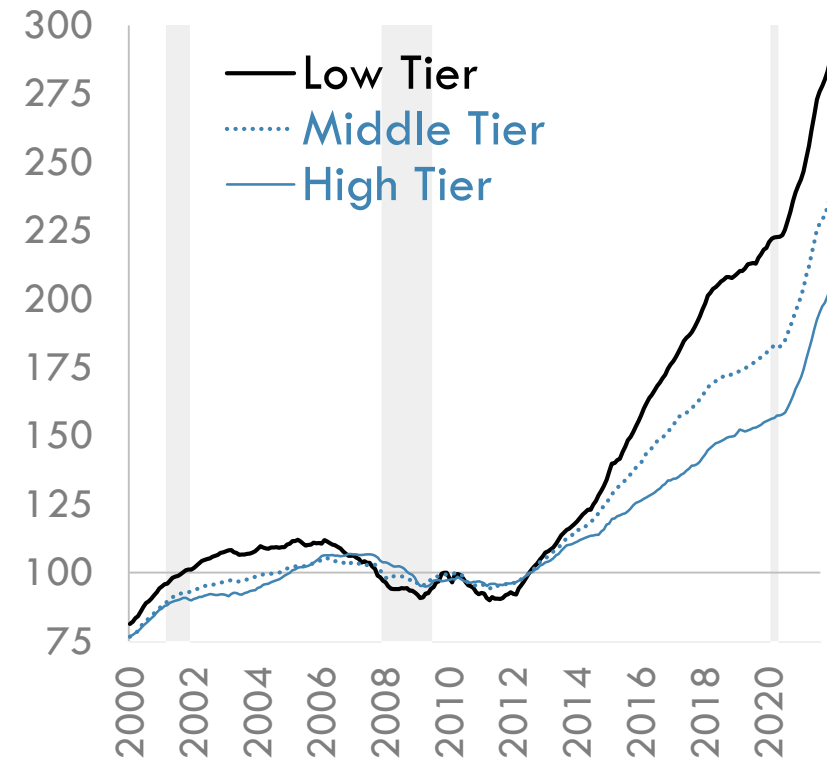


# Home prices accelerated during the pandemic but are expected to level off some in the years ahead

Case-Shiller Home Price Indices  
Index 100 = July 2012

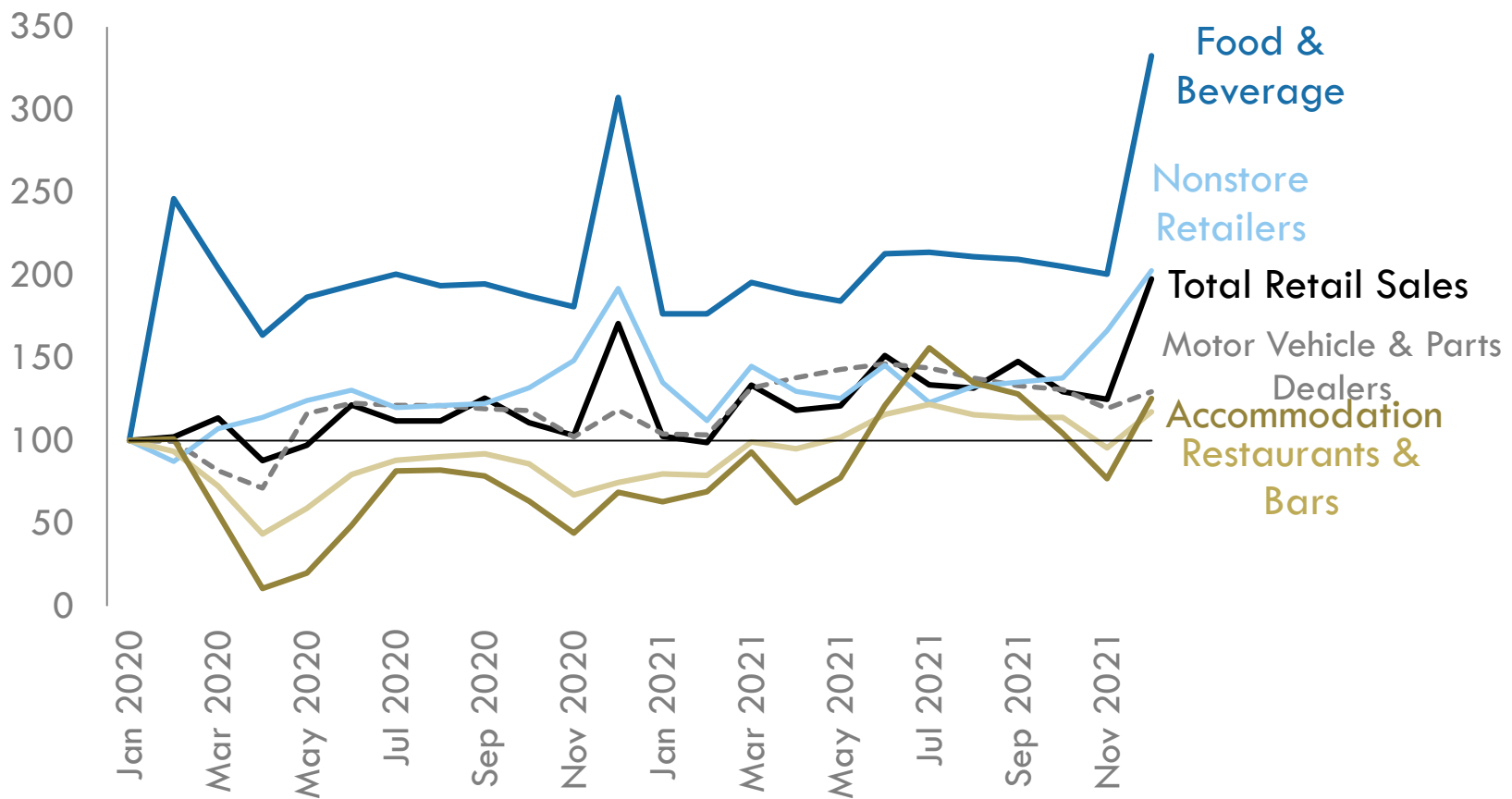


Denver Home Price Indices  
Index 100 = July 2012



# Rapid holiday spending pushes retail sales to their highest levels

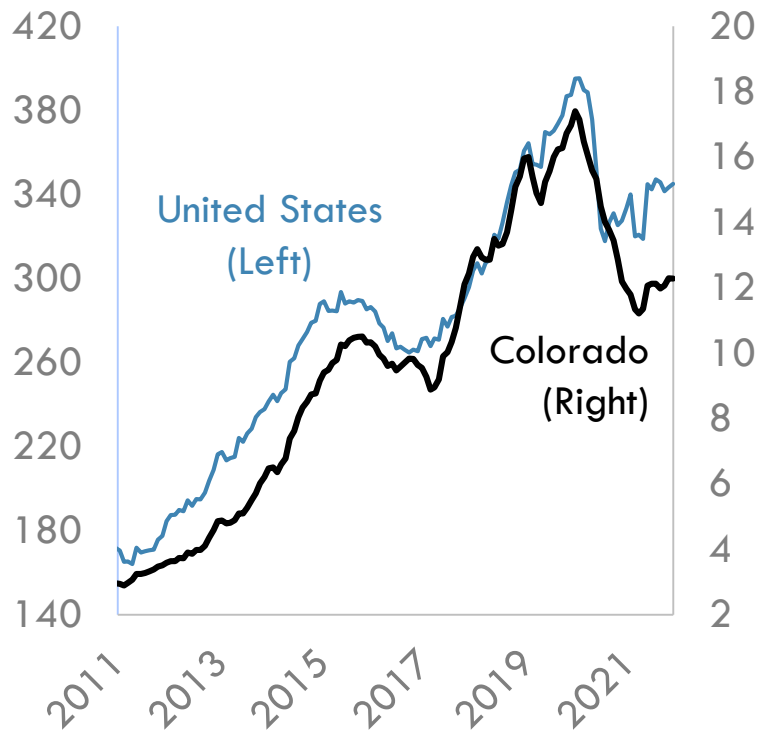
Colorado Retail Sales  
Index January 2020 = 100



# Energy market dynamics

## Crude Oil Production

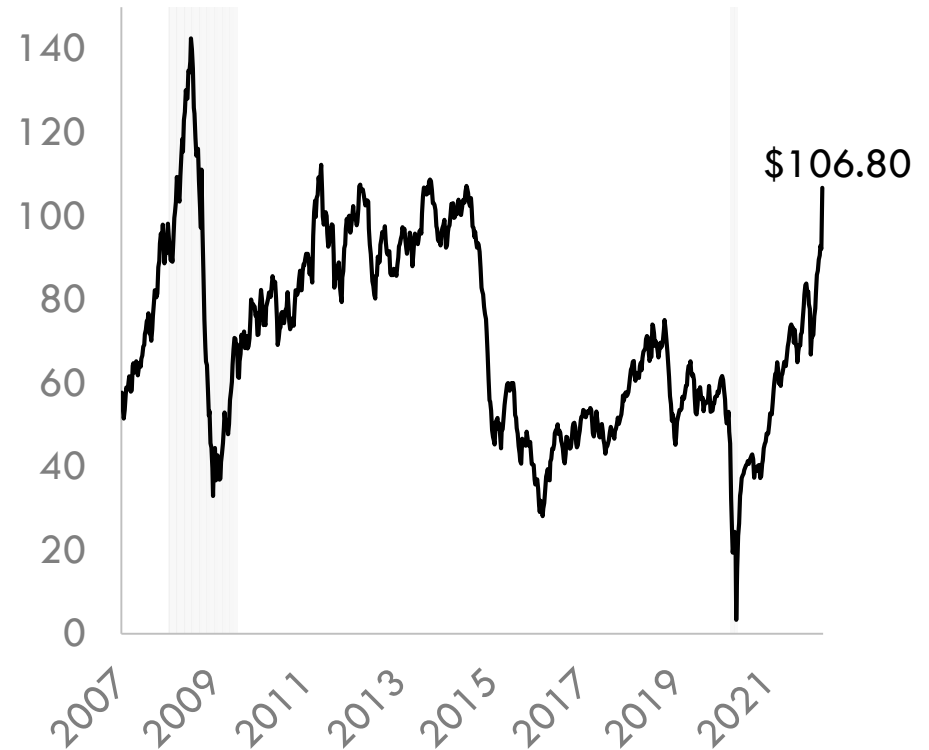
Millions of Barrels per Month



Source: U.S. Energy Information Administration. Data are shown as three-month moving averages and are not seasonally adjusted. Data are through November 2021.

## Crude Oil Price, West Texas Intermediate

Dollars per Barrel



Source: U.S. Energy Information Administration. Weekly average prices. Data are not seasonally adjusted.

# General Fund Budget Outlook

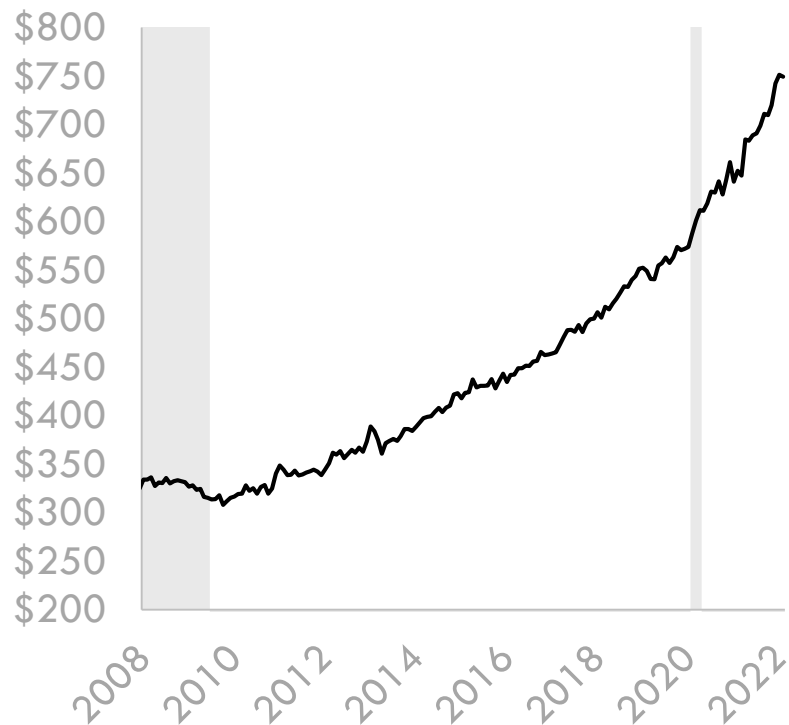


# The largest General Fund streams remain strong on wage gains, goods demand, and inflationary pressures

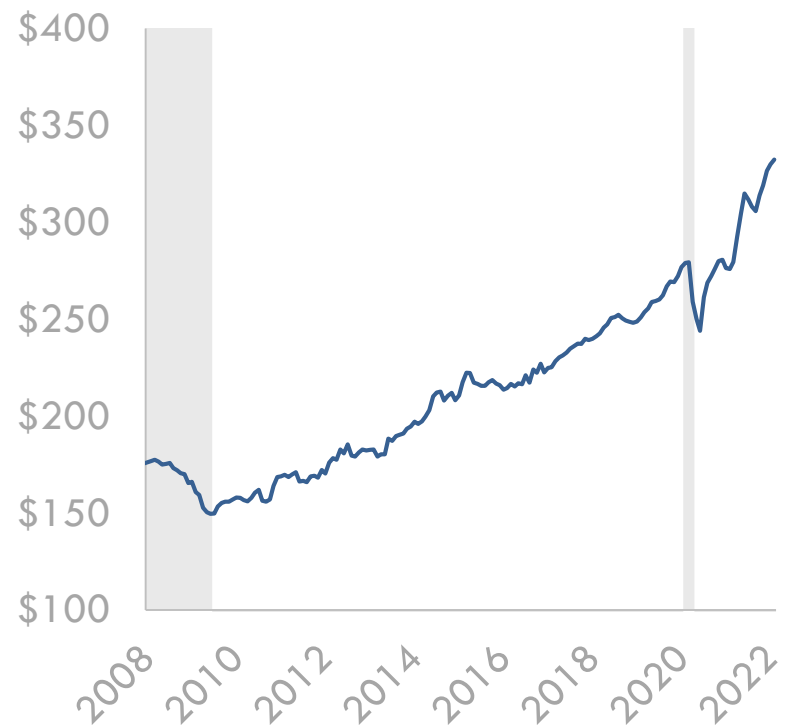
## Monthly General Fund Collections from Selected Sources

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 February 2022. February 2022 data are preliminary.

# Slower General Fund revenue growth expected: Strong wage gains offset by inflation eroding business profits, shifts from goods to services, weaker capital gains, higher interest rates

## Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes

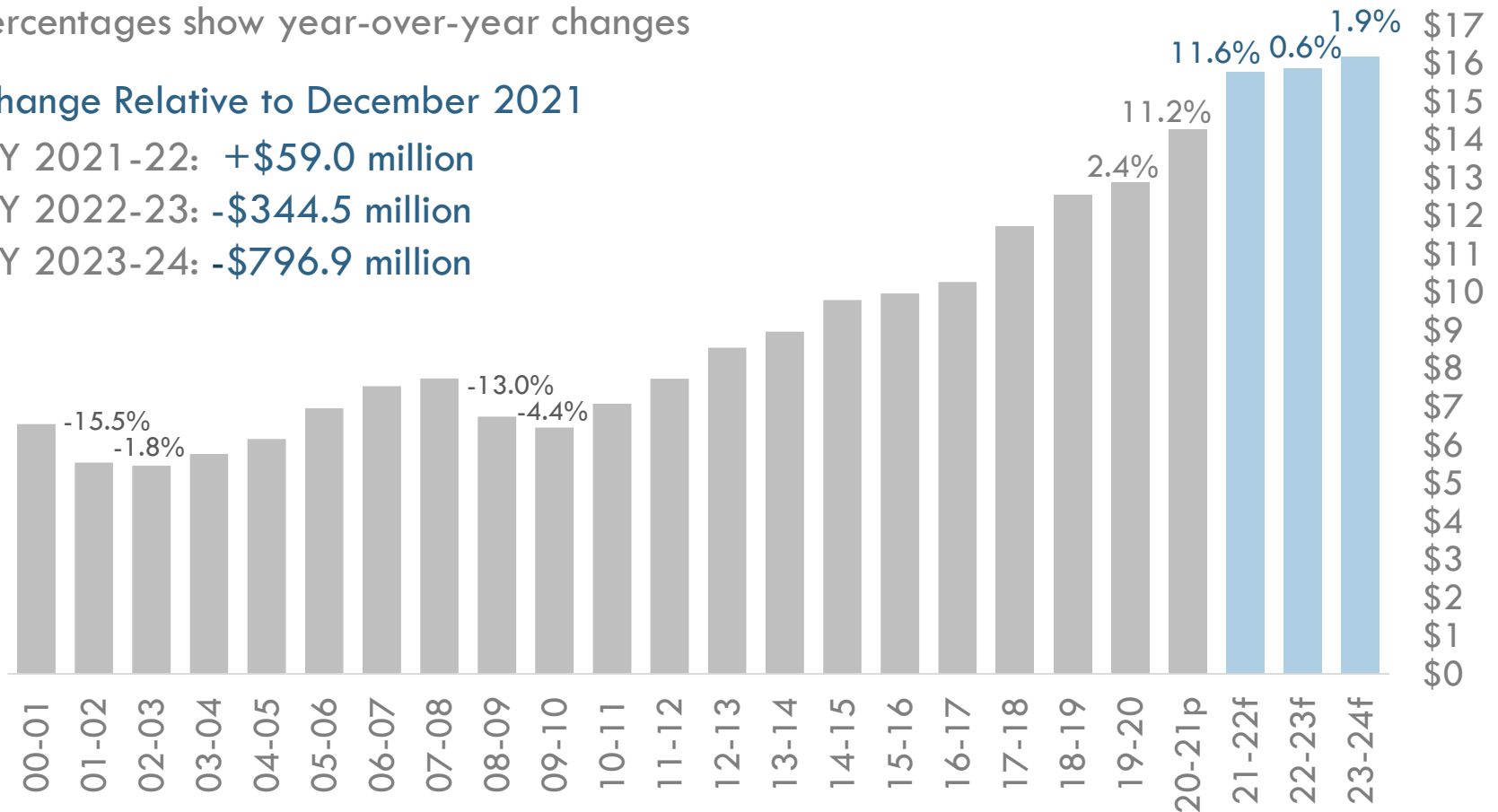
### Change Relative to December 2021

FY 2021-22: +\$59.0 million

FY 2022-23: -\$344.5 million

FY 2023-24: -\$796.9 million

March 2022  
Expectations



Source: Colorado Office of the State Controller and Legislative Council Staff March 2022 forecast.

# TABOR Outlook

Revenue Subject to TABOR

Dollars in Billions

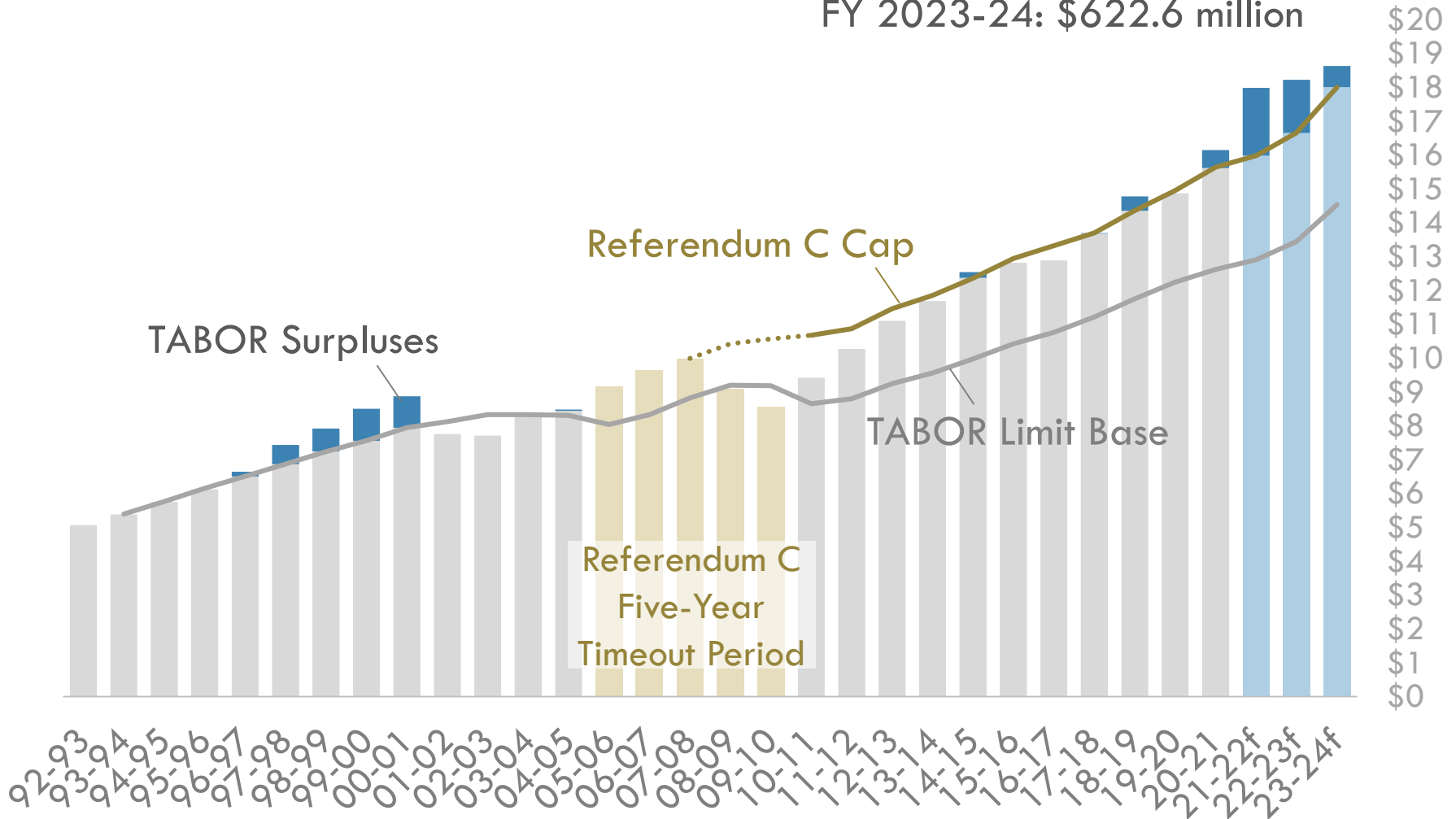
## Revenue Above the Ref C Cap

FY 2020-21: \$525.5 million

FY 2021-22: \$2.0 billion

FY 2022-23: \$1.6 billion

FY 2023-24: \$622.6 million



Source: Colorado Office of the State Controller and Legislative Council Staff March 2022 forecast.

# Inflation Risk & the Budget

## Lag in higher Referendum C cap growth

Inflation + Pop. Growth = Allowable Referendum C Cap Growth

2021: 3.5% + 0.7%      FY 2022-23 +\$672 million

2022f: 7.0% + 1.1%      FY 2023-24 +\$1.35 billion

2023f: 3.8% + 1.2%      FY 2024-25 +\$901 million

1% higher inflation = ~\$170 million higher Ref C cap

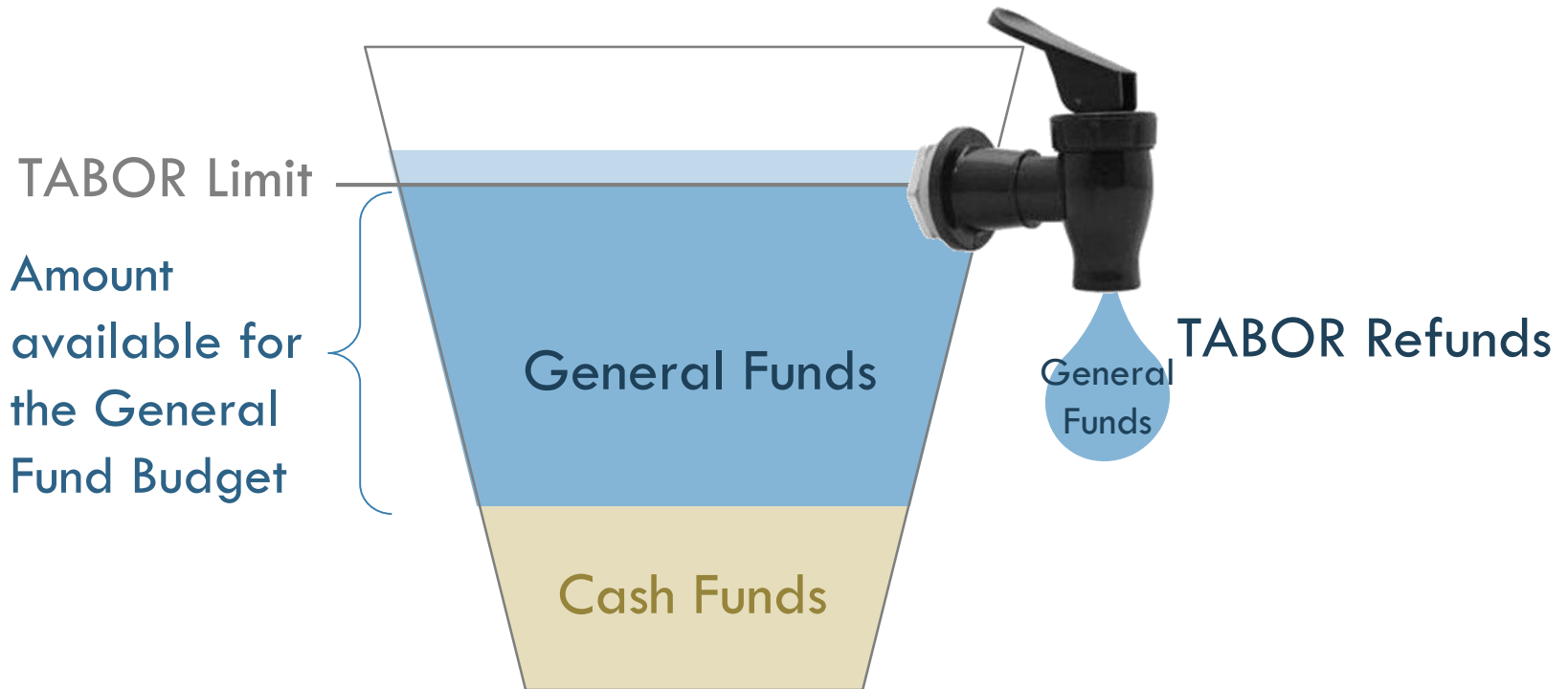
## Inflation will impact near-term budget pressures

- State employee wage pressures
- Construction, fuel costs
- Required school finance increase is lagged  
(e.g., 2022 inflation impacts FY 2023-24 budget)



# TABOR Refunds are refunded from General Funds

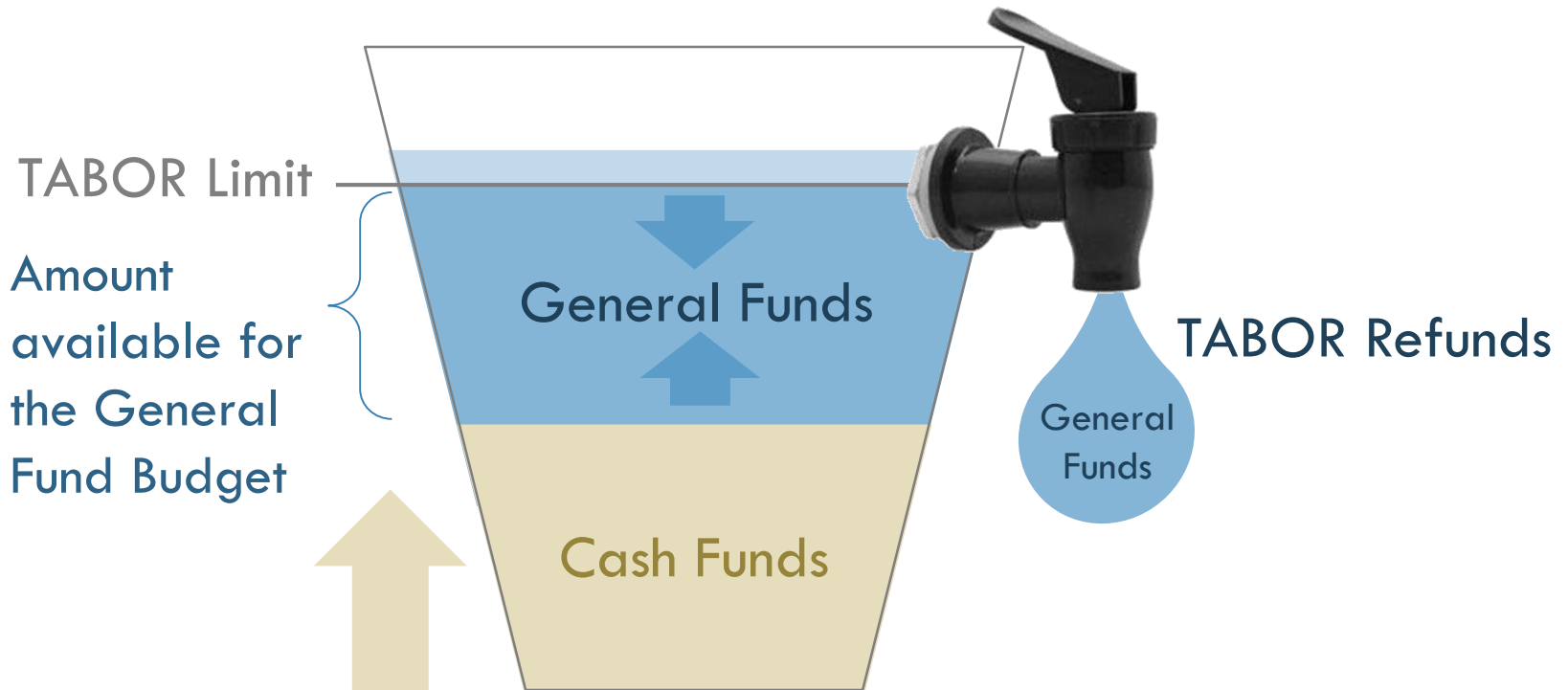
In a TABOR surplus situation...



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

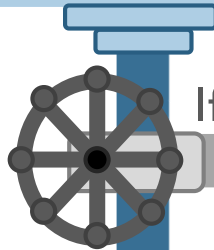
# TABOR Refund Obligation



# 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



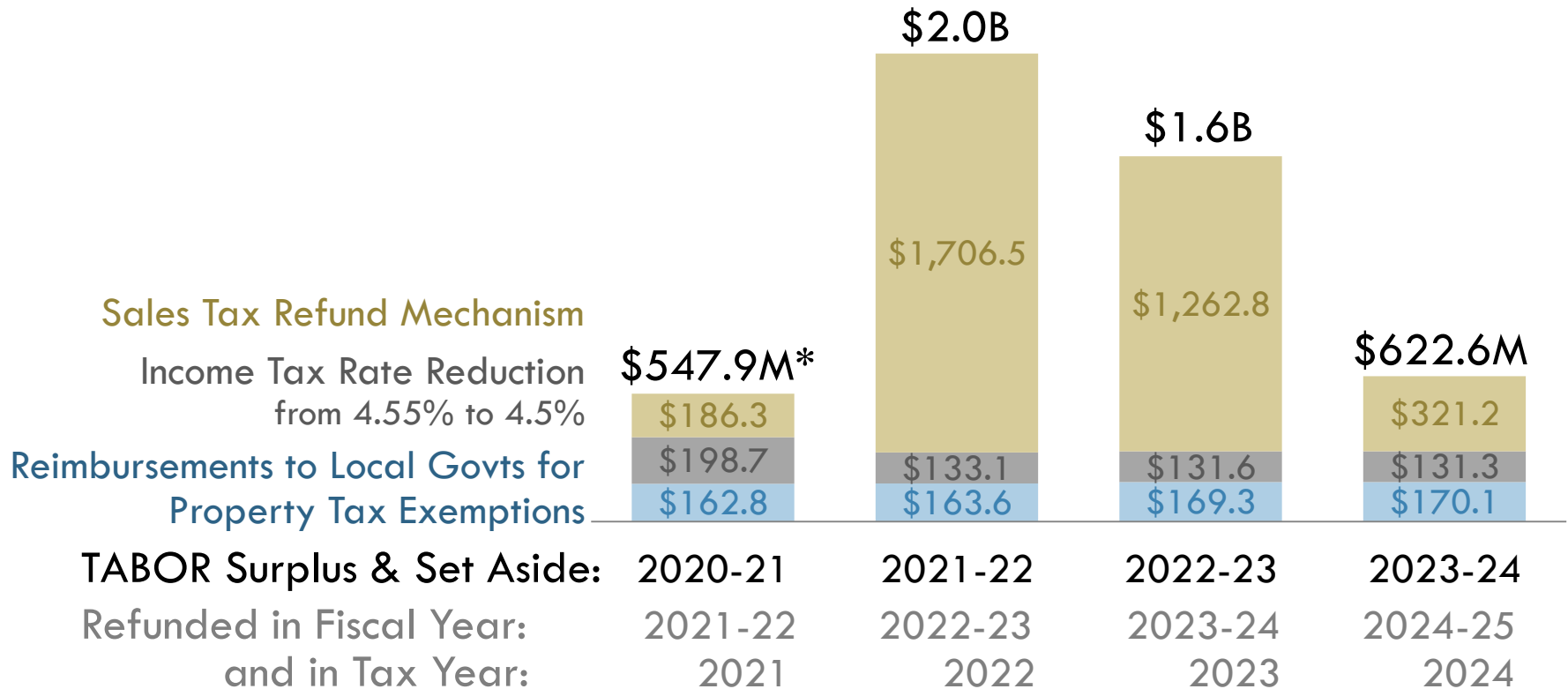
#3

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

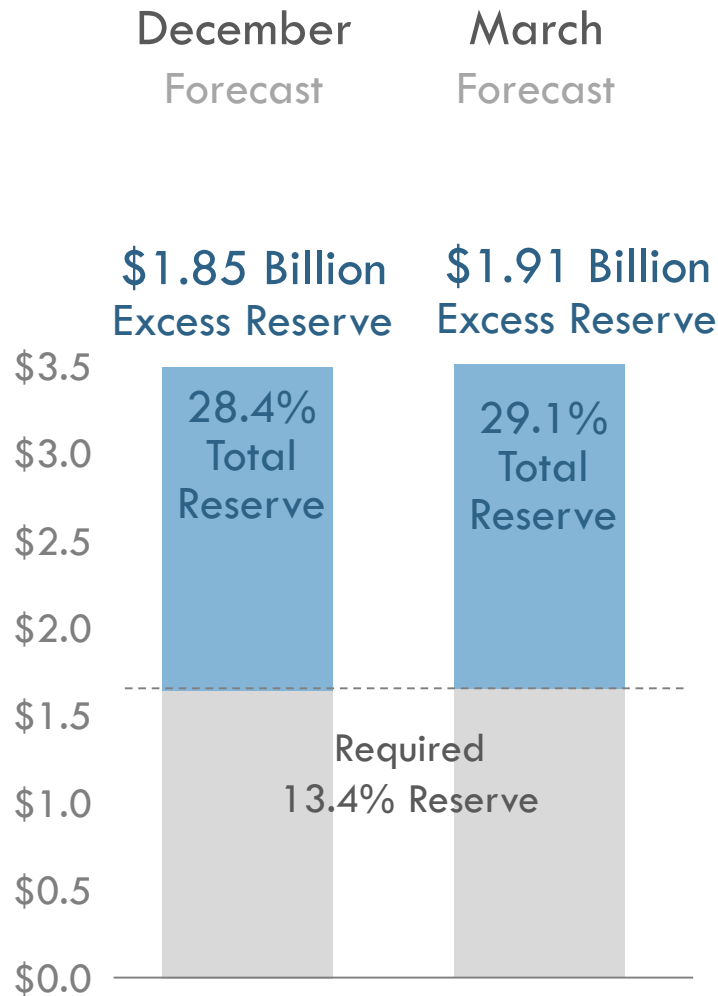
Dollars in Millions



Source: Colorado Office of the State Controller and Legislative Council Staff March 2022 forecast.

\*The refund from the FY 2020-21 surplus is adjusted for \$22.4 million in under-refunds from prior years.

# Current Year | FY 2021-22 General Fund Budget Situation



**+\$62.7 million change from the December 2021 forecast:**

Revenue expectations **+\$59.0 million**

TABOR set-aside **+\$124.7 million** on higher revenue expectations

Beginning balance **+\$13.5 million** with final FY 2020-21 numbers

Net transfers from the GF **\$5.3 million**, reflecting revenue forecast changes, 2022 legislation

GF appropriations **-\$102.9 million** with supplemental package

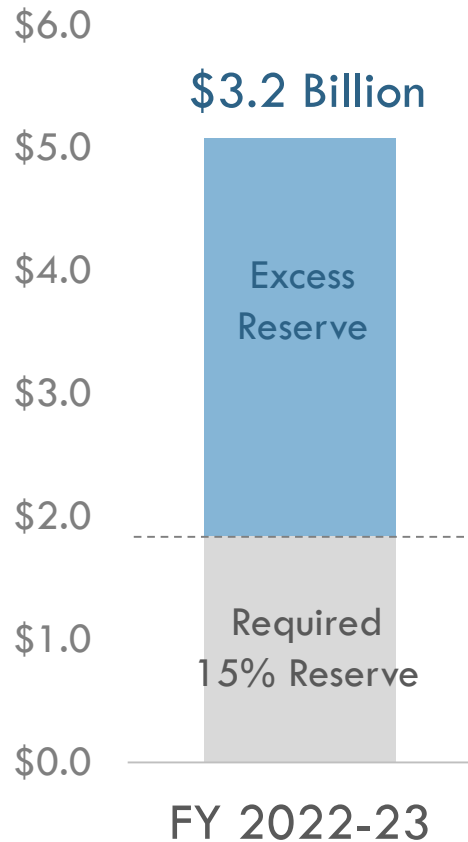
Source: Legislative Council Staff forecasts based on current law. See Table 2 in the March 2022 forecast for more information.

# Budget Year | FY 2022-23 Budget Outlook

**Scenario A:** 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, TABOR refund obligation, and the 15% reserve requirement.

## Scenario A:

Hold appropriations constant  
at FY 2021-22 levels



### 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

# Budget Year | FY 2022-23 Budget Outlook

**Scenario B:** Assumes JBC-approved actions to date with CDC and JTC recommendations for capital projects.

## Scenario B

### Appropriations

21-22: -\$190M relative to current law

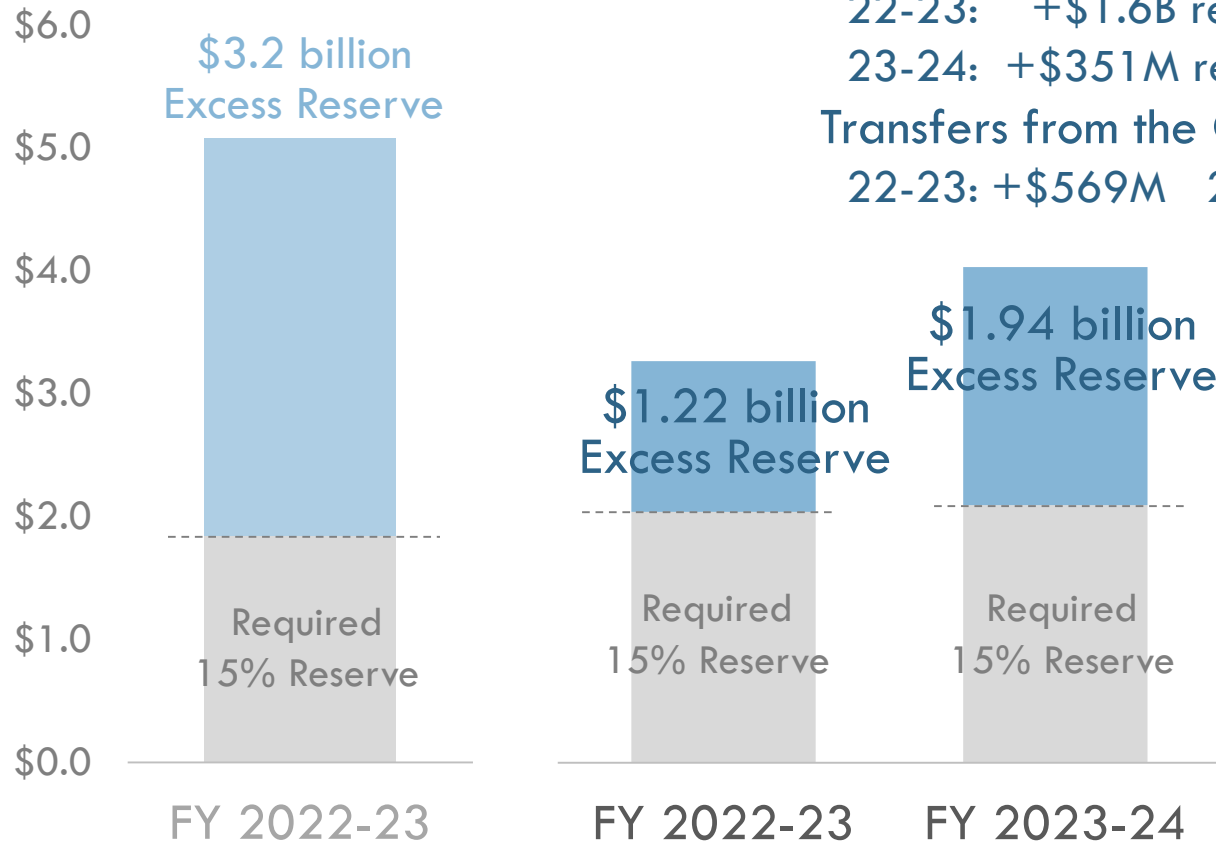
22-23: +\$1.6B relative to 21-22

23-24: +\$351M relative to 23-24

### Transfers from the General Fund

22-23: +\$569M 23-24: +\$316M

### Scenario A: Hold Appropriations Constant

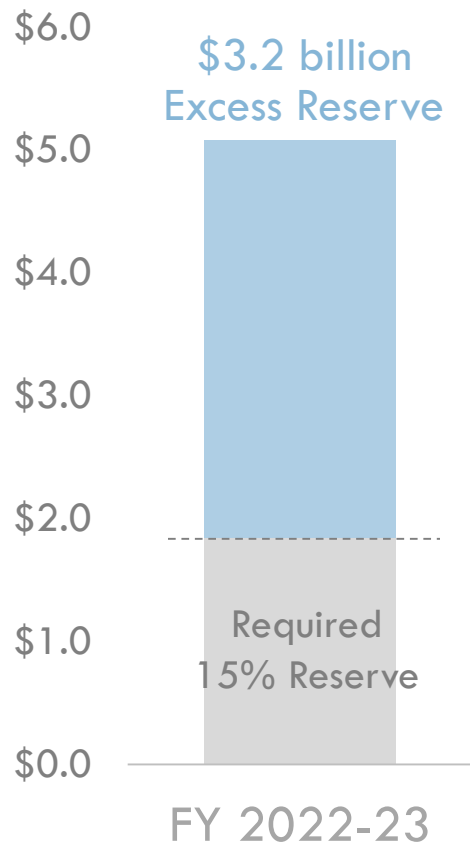


Source: Legislative Council Staff March 2022 forecast with JBC Staff information on JBC-approved actions to date. For more information, see the March 15, 2022 JBC Staff document available at: <https://leg.colorado.gov/sites/default/files/gfo-03-15-22.pdf>

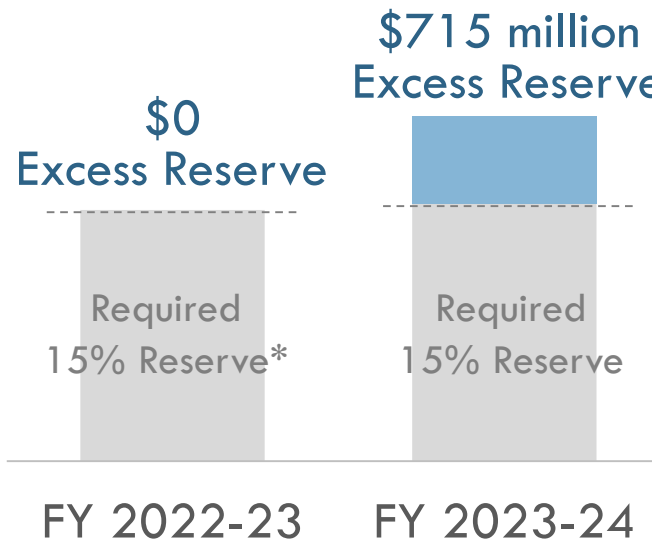
# Budget Year | FY 2022-23 Budget Outlook

**Scenario C:** Assumes JBC-approved actions to date with CDC and JTC recommendations for capital projects as well as spending down the excess reserve in FY 2022-23.

## Scenario A: Hold Appropriations Constant



## Scenario C: Scenario B and +\$1.22 billion in one-time spending in FY 2022-23



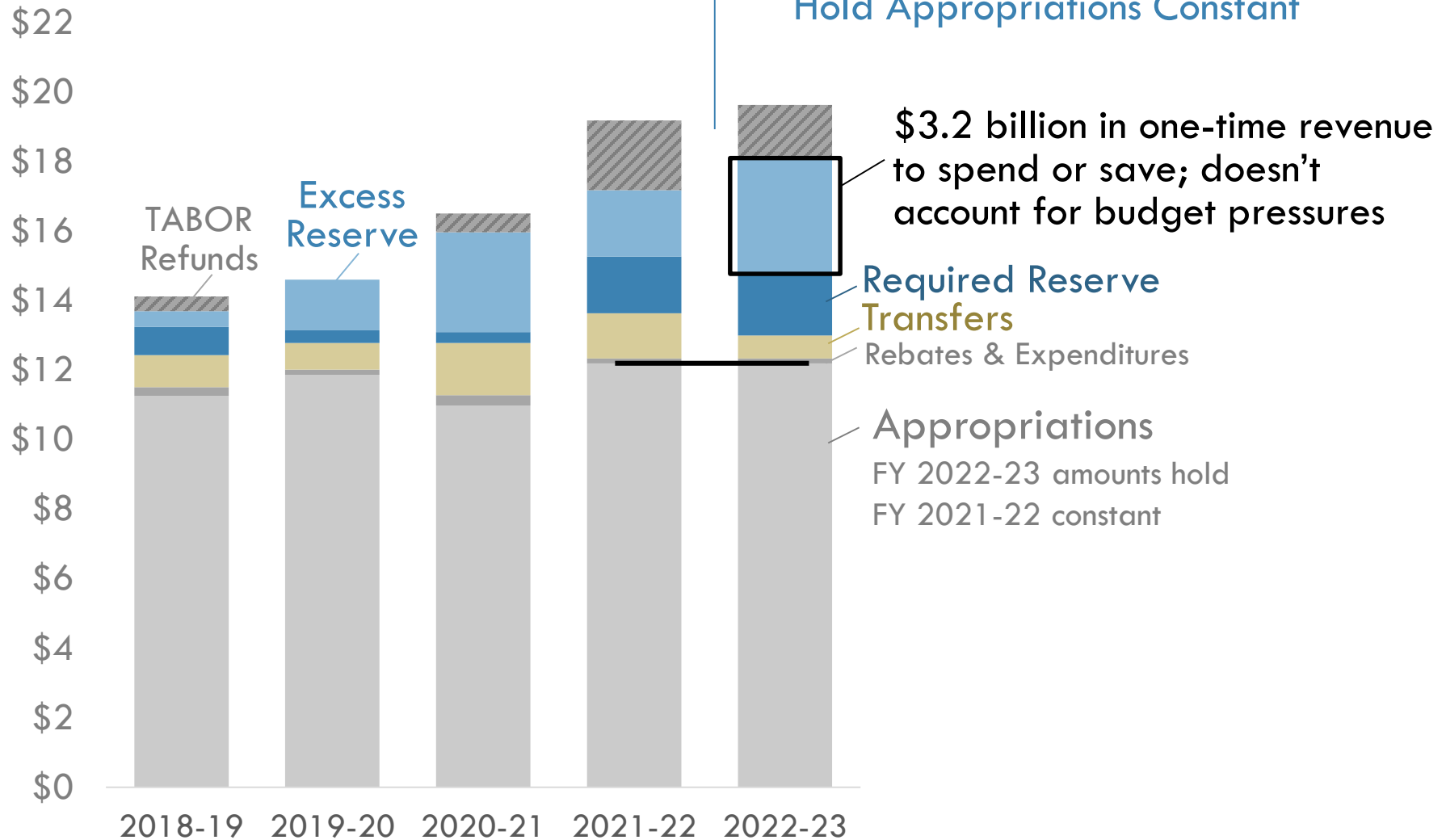
Source: Legislative Council Staff March 2022 forecast with JBC Staff information on JBC-approved actions to date.

\*Does not account for an increase in the required reserve due to increased appropriations.



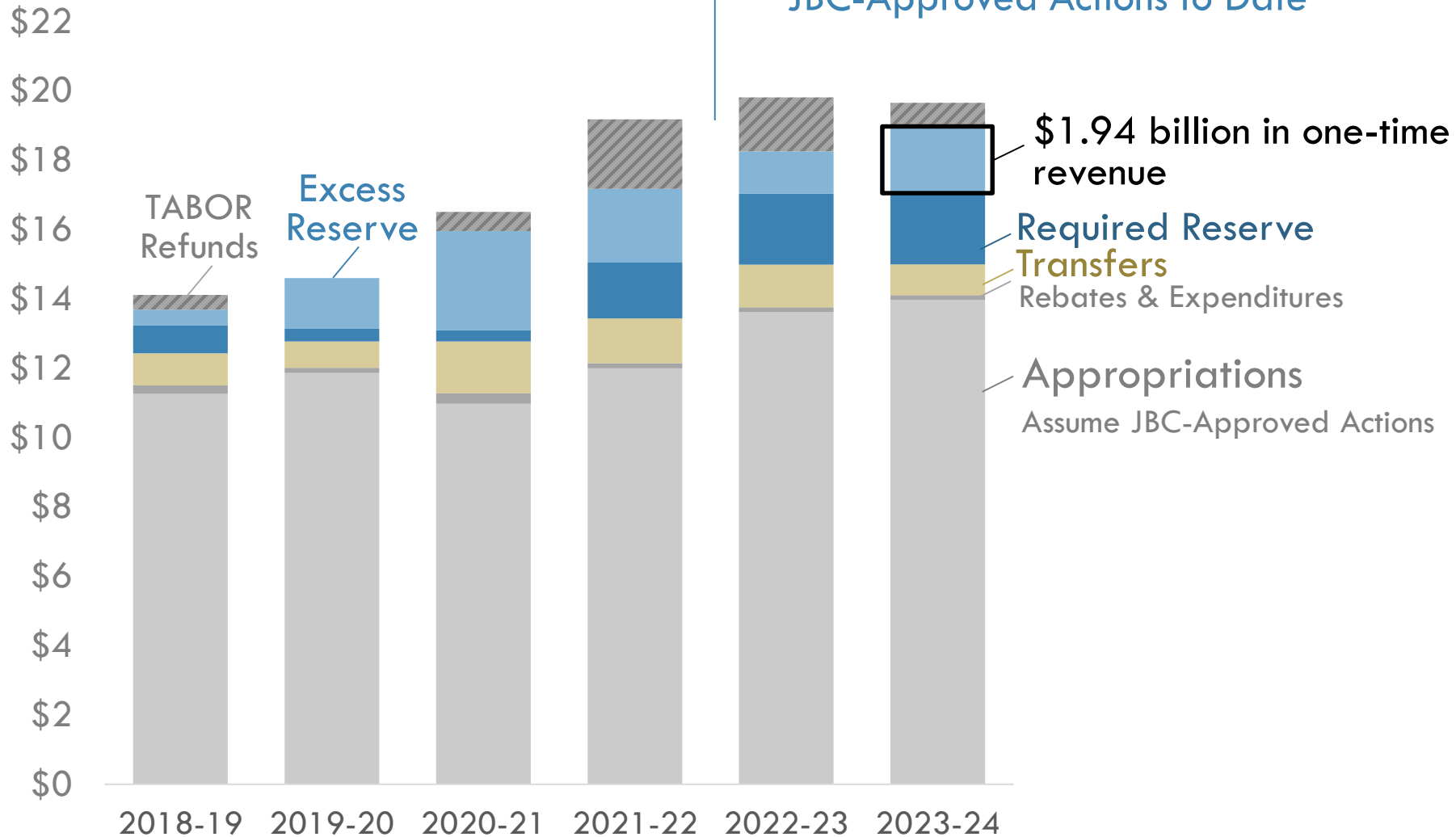
# General Fund Budget (Spending or Saving)

Dollars in Billions



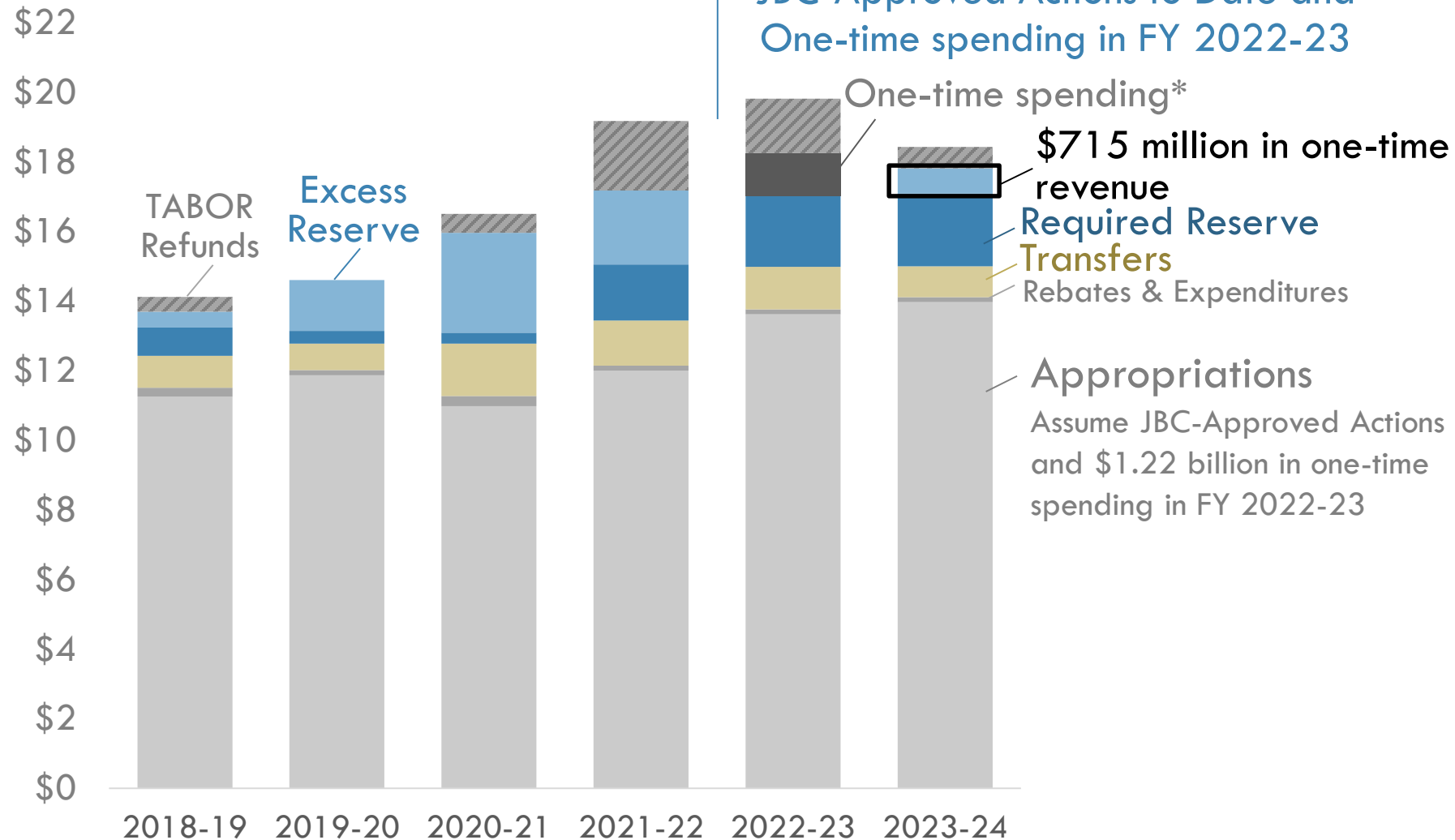
# General Fund Budget (Spending or Saving)

Dollars in Billions



# General Fund Budget (Spending or Saving)

Dollars in Billions



Source: Legislative Council Staff March 2022 forecast.

\*Does not account for an increase in the required reserve if this amount in includes increased appropriations.

# Risks to the Forecast

## New sources of uncertainty, elevated recession risk

- Geopolitical risk with the war in Ukraine, pandemic's trajectory, supply chain disruptions, labor shortages, high inflation
- Evolving monetary policy
- 2022 legislation, election outcomes, federal stimulus, and federal tax policy changes

## Risks to the budget outlook

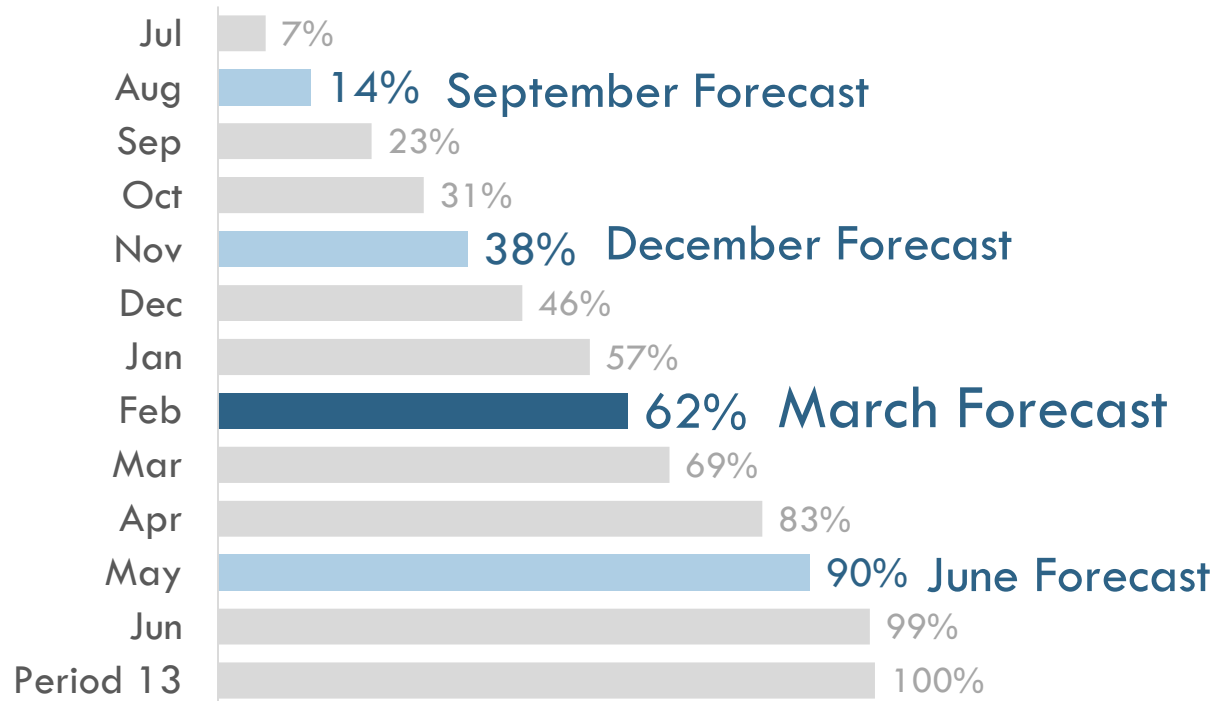
- Revenue will be constrained by the Referendum C cap throughout the forecast period, capping General Fund budget growth
- Regular forecast error can be absorbed by TABOR refunds; a recession would likely constrain revenue available for the budget
- Higher (or lower) cash funds revenue subject to TABOR means more (or less) budget pressure
- Inflation risk to Referendum C cap and budget pressures

# Supplemental Budget Overview Slides



# How much do we know about the current FY 2021-22?

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

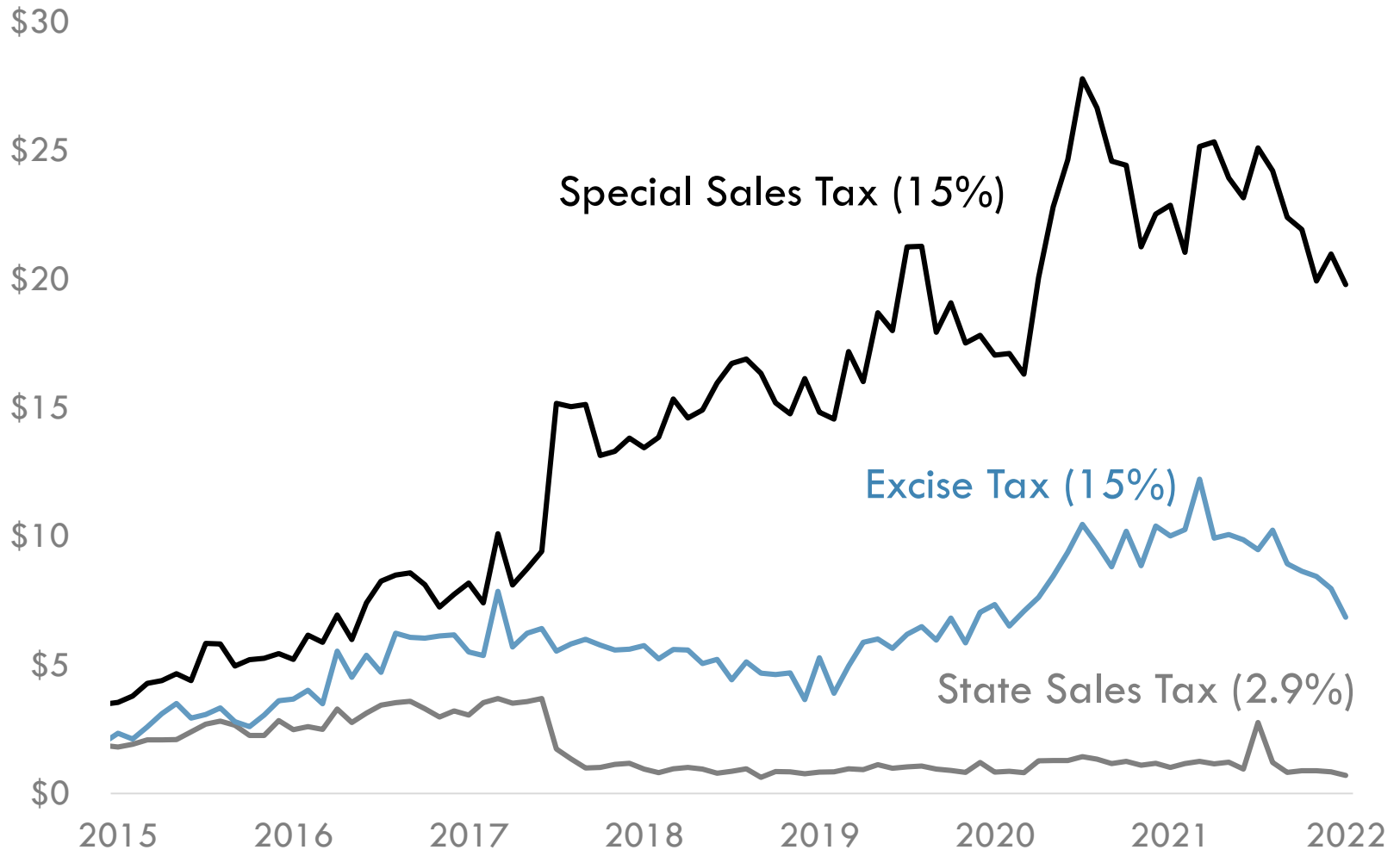


Source: Colorado Office of the State Controller and Legislative Council Staff calculations.

\*Six-year average of actual collections data, FY 2013-14 to FY 2018-19.

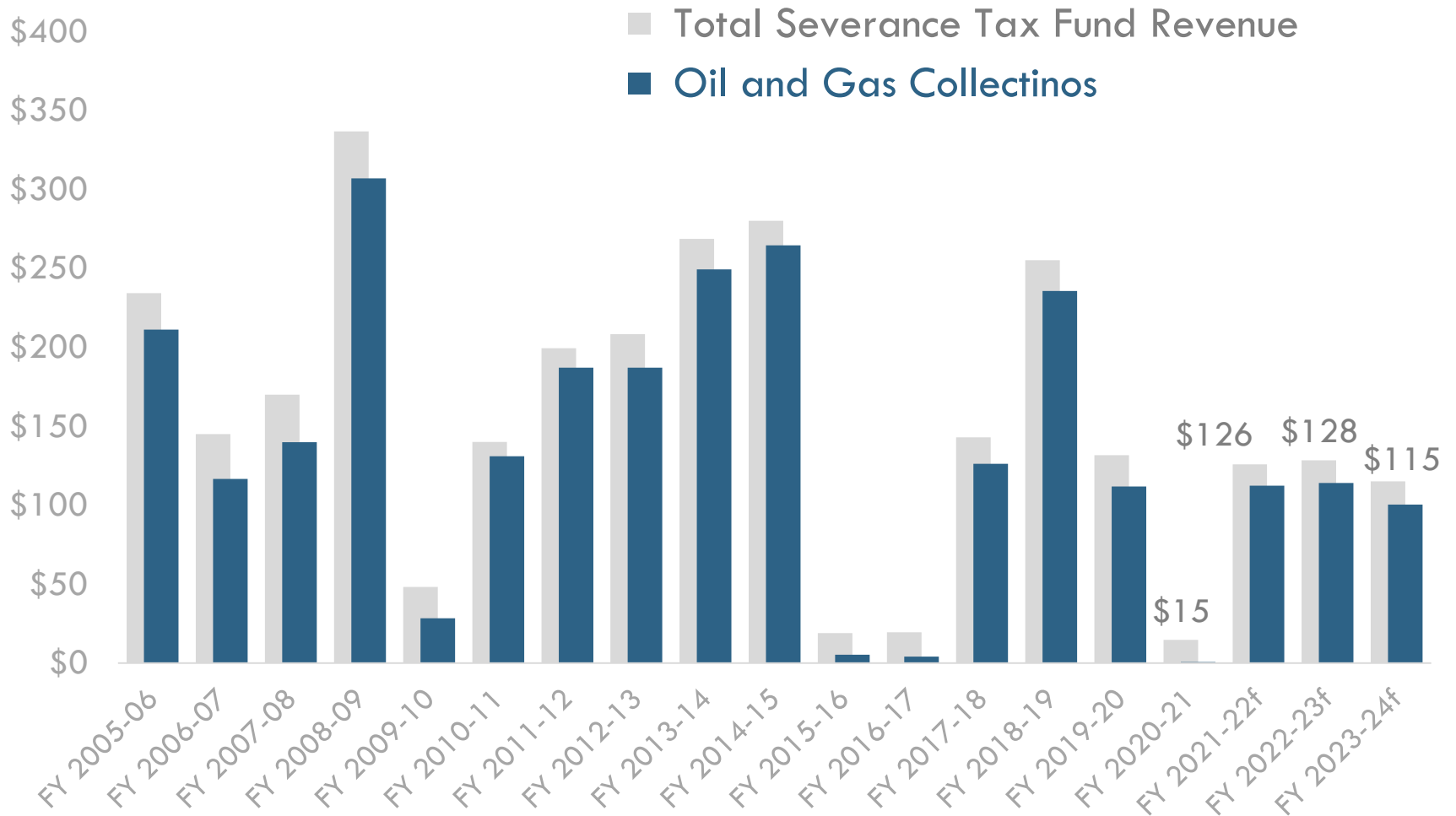
# Retail Marijuana Revenue

Monthly Collections, Millions of Dollars



# Severance Tax Revenue

Millions of Dollars



Source: Colorado Department of Revenue and March 2022 Legislative Council Staff forecast.



# Questions?

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