

State Budget Outlook

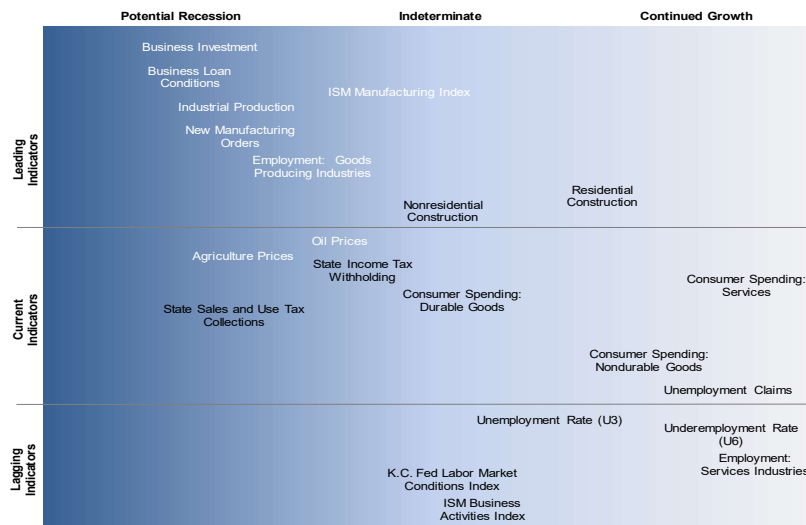
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November 18, 2016
 Colorado School Finance Project



Signals from Economic Trends

September 2016 LCS Forecast



Legislative Council economic staff's interpretation of recent trends in major economic indicators and their implications for the state of the economy in the current business cycle as of September, 2016. Indicators in white are those most closely tied to the global economy.

**Education Budget:
Tough Budgets will Persist**

- Revenue growth slowing
- Budget pressures rising
- TABOR Limit

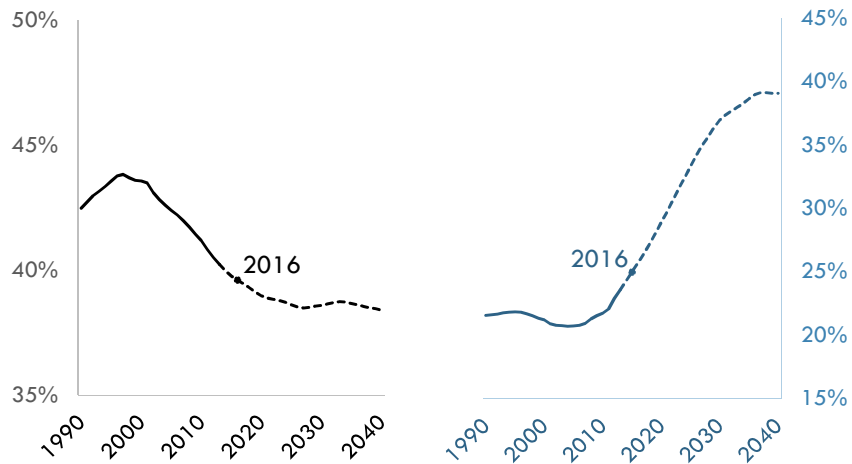


*Colorado State Capitol,
Reflected on the Windows of the
Joint Budget Committee*

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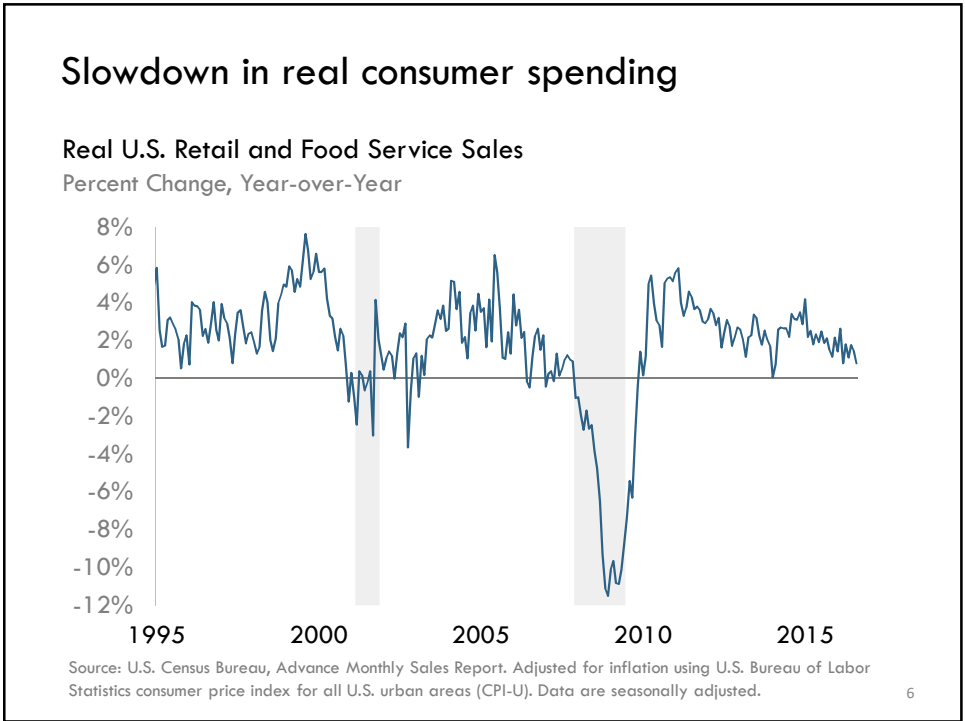
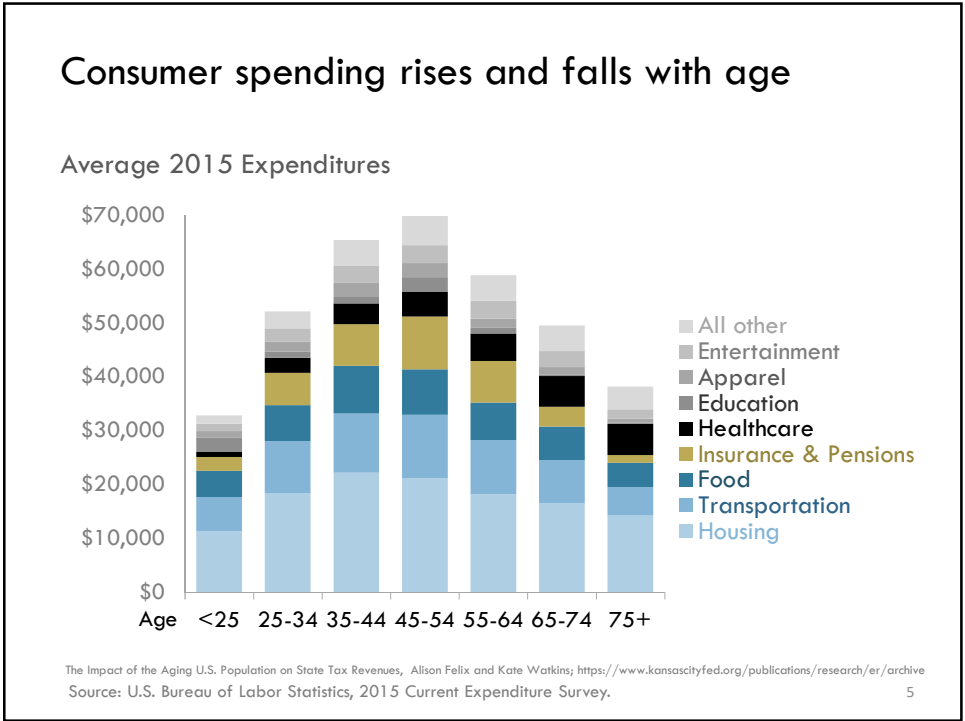
A rising share of the population is age 65+

Prime Working-Age Population (25 to 54)
Share of Total U.S. Population



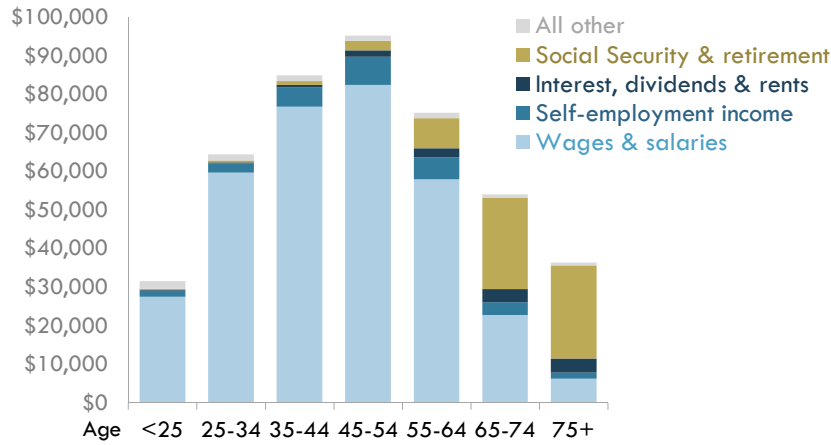
The Impact of the Aging U.S. Population on State Tax Revenues, Alison Felix and Kate Watkins; <https://www.kansascityfed.org/publications/research/er/archive>
Source: U.S. Census Bureau, intercensal population estimates and 2014 population projections.

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Incomes peak for those in their 40s and 50s

Average 2015 Incomes

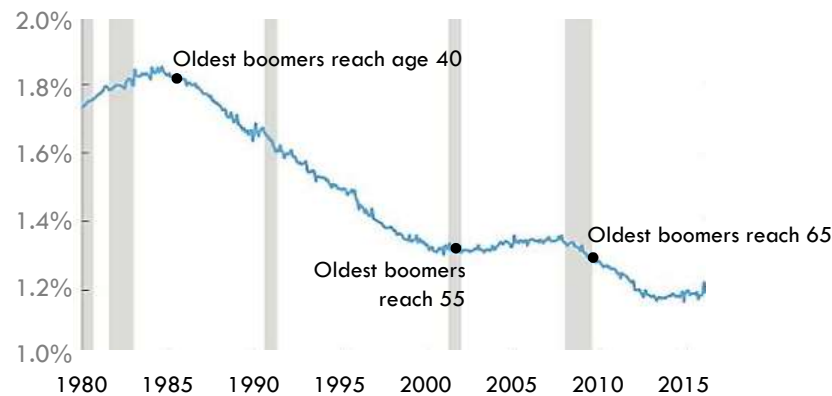


The Impact of the Aging U.S. Population on State Tax Revenues, Alison Felix and Kate Watkins; <https://www.kansascityfed.org/publications/research/er/archive>
 Source: U.S. Bureau of Labor Statistics, 2015 Current Expenditure Survey.

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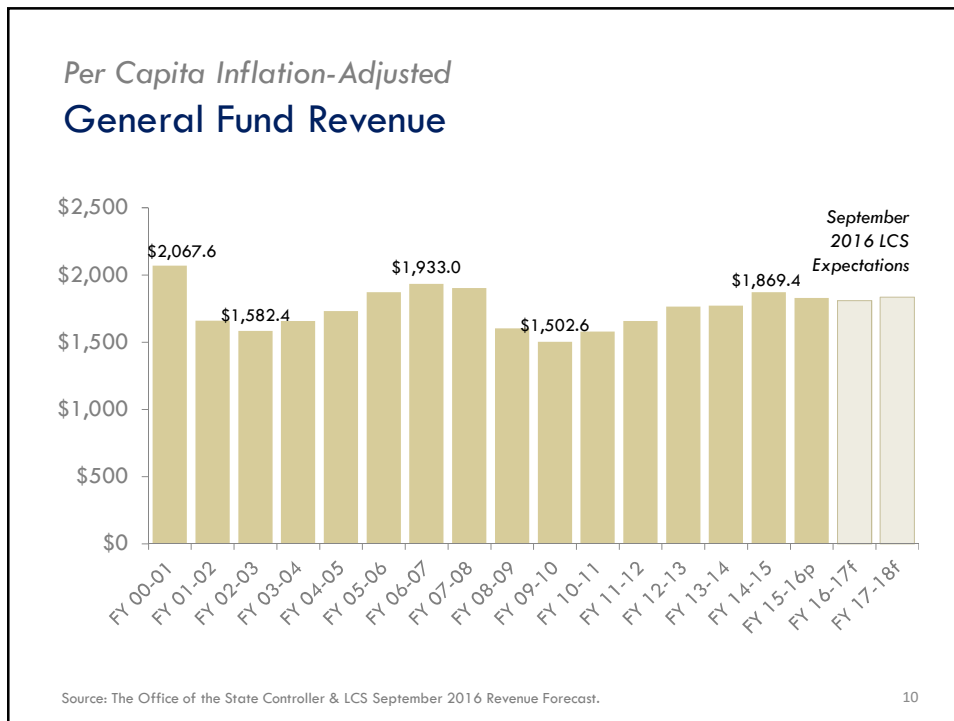
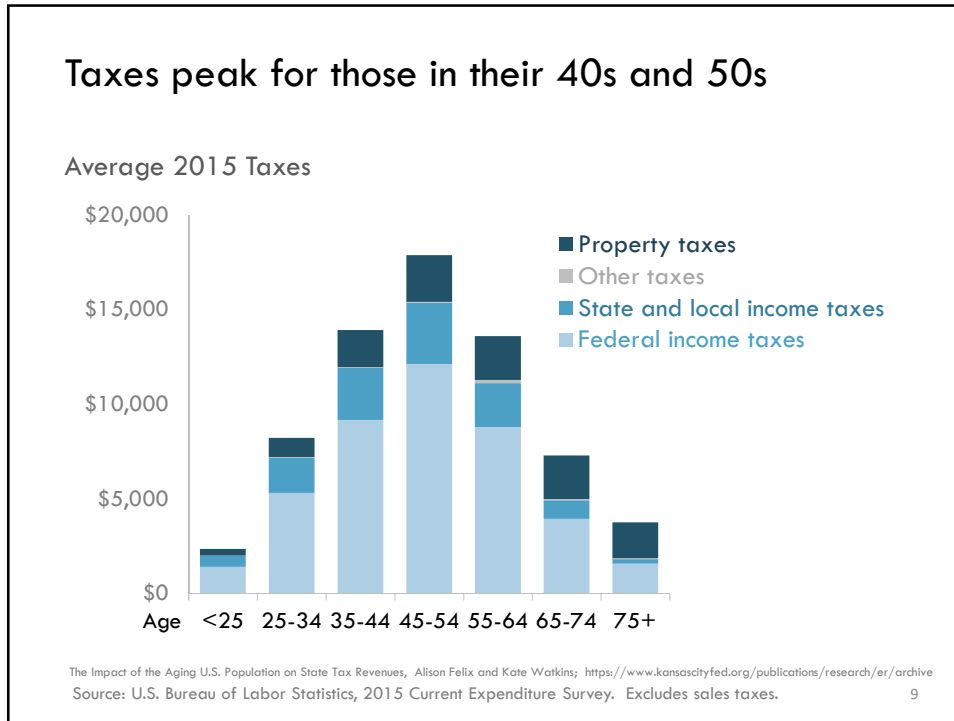
Slowdown in real wage growth

Cyclically Neutral Aggregate Real Wage Growth
 Percent Change, Year-over-Year



Source: U.S. Bureau of Labor Statistics, Current Population Survey. Figure from Rich et al. (2016) "U.S. Real Wage Growth: Slowing Down With Age." *Liberty Street Economics Blog*, Federal Reserve Bank of New York.

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Aging will shift state expenditures

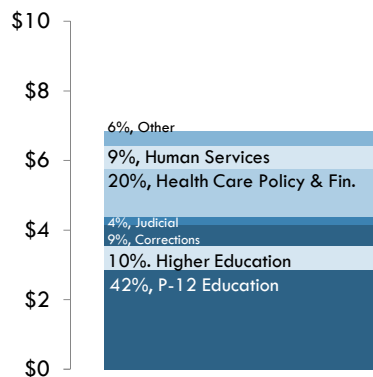
- ↑ State and local pensions
- ↑ Health care services
 - Low income elderly (Medicaid)
 - Higher insurance premiums for government employers
- ↑ Shifts in demands for certain services
 - Accessible transportation
 - Home health
- ↓ Shifts in support for services
 - Education

The Impact of the Aging U.S. Population on State Tax Revenues, Alison Felix and Kate Watkins
 Available at: <https://www.kansascityfed.org/publications/research/er/archive>

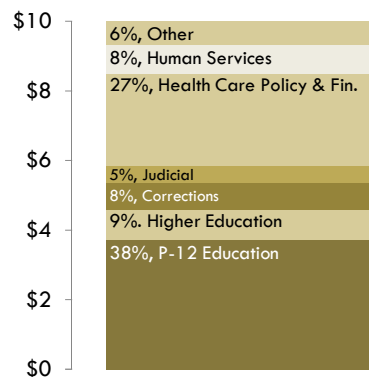
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What the General Fund Pays For

FY 2006-07, \$6.8 Billion

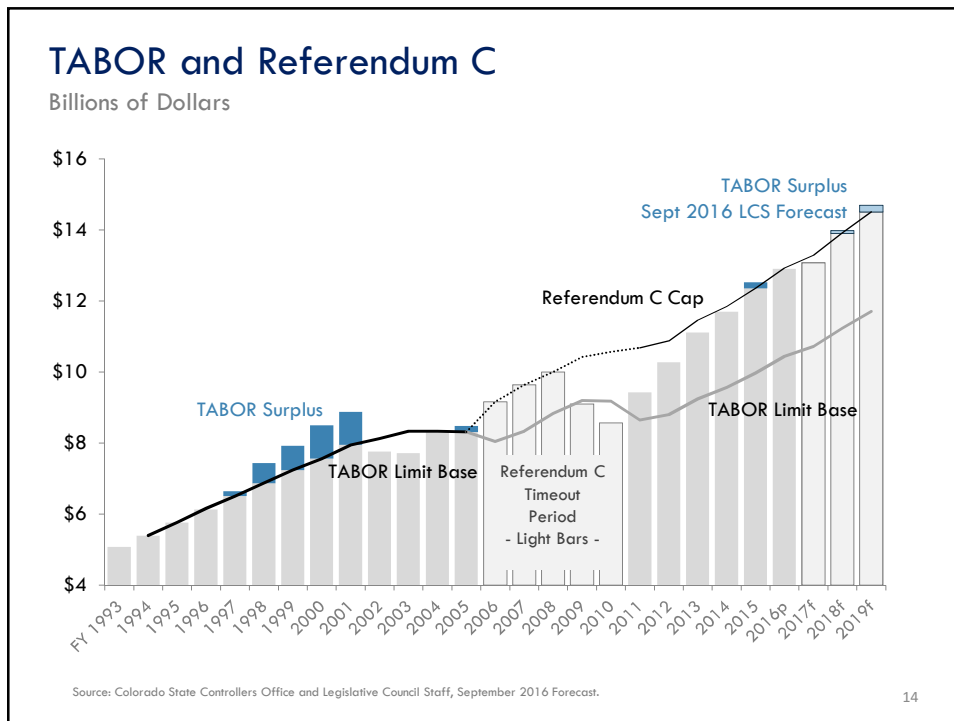
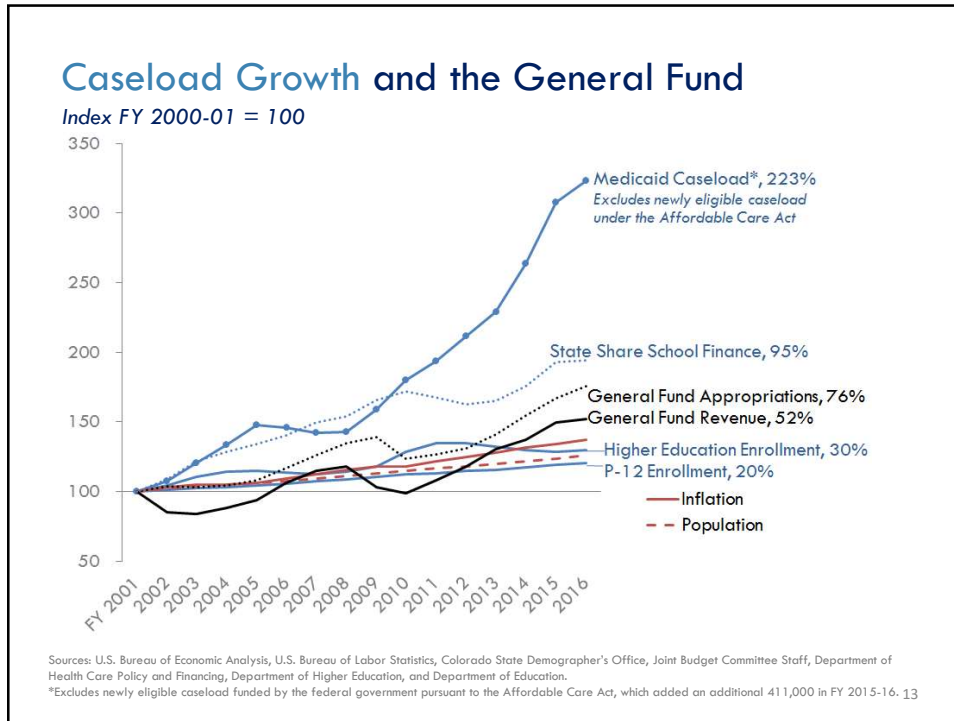


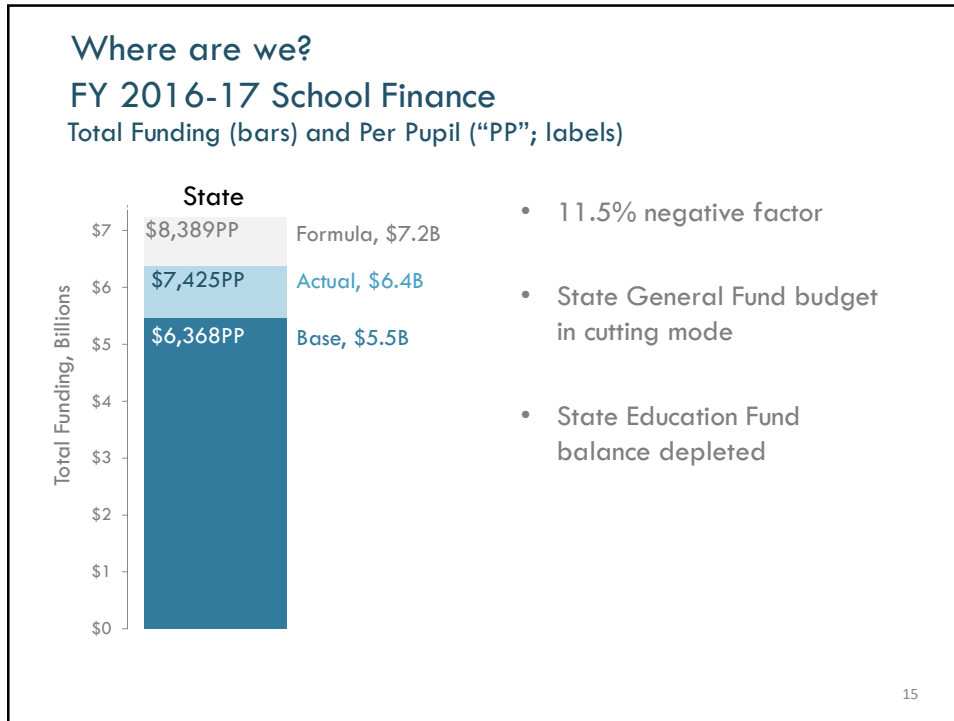
FY 2016-17, \$9.9 Billion



Totals may not sum due to rounding.
 Source: Joint Budget Committee. Excludes transfers for transportation and capital construction.

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Governor's Request Budget Balancing

FY 2016-17

- Cut SB228 transfer to transportation in half
- \$37.1 million from severance tax funds

LCS
4.5% year-end reserve

OSPB
5.5% year-end reserve

Governor's FY 2017-18 Budget Request (OSPB) and Legislative Council Staff.
LCS estimate incorporates new information for FY 2015-16 since the release of the September forecast.

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Major Needs Identified for FY 2017-18

	Governor's Request*
K-12 New Enrollment & Inflation	\$243.5
TABOR Refund Obligation	195.0
SB 228 Transfers	164.0
New Medicaid Costs	142.8
Refill Reserve to 6.5%	180.8
Total:	\$926.1

*Governor's FY 2017-18 Budget Request, Office of State Planning and Budgeting

**LCS estimate incorporates new information for FY 2015-16 since the release of the September forecast.

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Needs Relative to New Revenue, FY 2017-18

	Governor's Request*
Sum of Major Needs	\$926.1
New General Fund Revenue	\$426.0
Gap	\$500.1

*Governor's FY 2017-18 Budget Request, Office of State Planning and Budgeting

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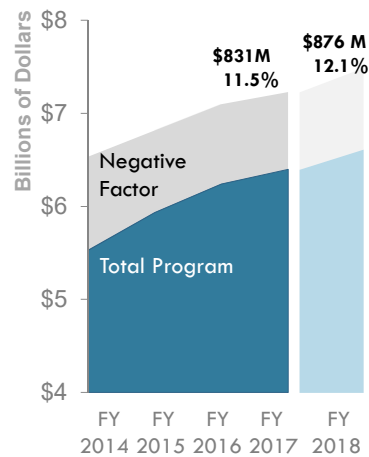
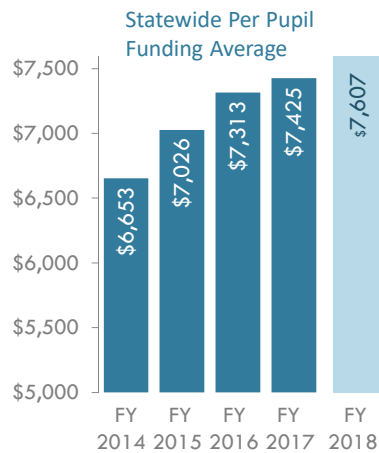
Governor's Request Budget Balancing FY 2017-18

- Increase negative factor by \$45 million
- Eliminate TABOR refund with lower Hospital Provider Fee
- Reduce SB228 transportation transfer to \$79M
- \$47 million transfer from State Employee Reserve Fund
- Transfer \$15M from BEST to Public School Fund

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Governor's Proposal School Finance

+\$198 million General Fund
-\$150 million State Education Fund
Net change: \$48 million
SEF Balance around \$100 million



Source: Joint Budget Committee and Legislative Council Staff.

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Reference Slide

Economy is in full expansion

Consumer and services sector driving growth, industrial sector stagnant

- **Businesses drove growth in the recovery**
- **The U.S. consumer took the reins for the expansion**
 - Labor market at full employment, real wage growth has begun
 - Households budgets are signaling expansion
- **Weighing on growth:**
 - Weak global economy & strong dollar hurting manufacturers and exporters
 - Low oil prices have reduced capital investment
 - High housing costs will constrain all but the wealthiest consumers
 - Federal Reserve will tighten monetary policy, which will slow potential growth for several years
 - Low labor force participation and slow labor productivity growth will constrain long run potential economic growth

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