U.S. and Colorado economies are in very good shape

• Overall, most U.S and Colorado economic indicators remain strong
  – Healthy levels of job creation
  – Robust consumer demand
  – Rising incomes
  – Solid business investment
Colorado’s economy is among the nation’s strongest

Percent Change in Real GDP by State, 2017Q4 over 2018Q1
Seasonally Adjusted at Annual Rate

Data Source: U.S. Bureau of Economic Analysis. Map prepared by Legislative Council Staff.
Most Colorado industries are contributing to economic growth

Contributions to Real Colorado Gross Domestic Product, 2018Q1*
Seasonally Adjusted Annual Rates

- Information
- Agriculture
- Manufacturing
- Mining
- Retail Trade
- Construction
- Finance and Insurance
- Transportation
- Health Care
- Wholesale trade
- Professional, Scientific, and Technical Services
- Accommodation and food Services
- Educational Services
- Government
- Administrative Management
- Utilities
- Arts, entertainment, and recreation
- Real estate and rental and leasing
- Other services

Source: U.S. Bureau of Economic Analysis. Real GDP is inflation adjusted.
*Contributions to percent change reflect annualized quarter-over-quarter growth.
Amid a strong near-term outlook for the U.S. economy, risk to economic outlook remains sizeable

- Tightening labor markets
- Rising inflation
- Trade disputes
Both U.S. and Colorado labor markets are extremely tight

Unemployment & Underemployment Rates

Source: U.S. Bureau of Labor Statistics. Underemployment rates for Colorado are shown as four-quarter averages, while data for the U.S. are monthly. Data are seasonally adjusted.
Interest rates are on the rise

Effective Federal Funds Rate

Source: Federal Reserve Board of Governors.
Rising trade tensions and uncertainty

• Retaliatory tariffs continue to escalate
• Near-term impacts are expected to be minimal
• Full impacts of tariffs on Colorado have yet to be seen
Summary of Economic Forecast Expectations

• U.S and Colorado economies are expected to accelerate this year
• Continue to expand in 2019 and 2020, although at slower rates
  – Tightening labor markets
  – Rising inflation
  – Trade disputes
General Fund Budget Outlook
Revenue continues to exceed expectations

Gross General Fund Revenue
Billions of Dollars

Change Relative to June

FY 2019-20: +$82.7M
FY 2018-19: +$103.7M
FY 2017-18: +$130.1M

Source: Colorado Office of the State Controller and Legislative Council Staff September 2018 forecast.
Following double-digit growth in FY 2017-18, revenue growth is expected to moderate

Gross General Fund Revenue
Billions of Dollars

14.1% increase in FY 2017-18
- Wage gains and business profits
- Rebound in energy and manufacturing
- Federal tax policy distortions
- $113.3 million in one-time Tobacco MSA payments

Source: Colorado Office of the State Controller and Legislative Council Staff September 2018 forecast.
Last Year | FY 2017-18 General Fund Reserve

Dollars in Millions

<table>
<thead>
<tr>
<th>June 2018 Forecast</th>
<th>September 2018 Preliminary</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.7% Reserve</td>
<td>12.3% Reserve</td>
</tr>
<tr>
<td>$544.4M</td>
<td>$599.5M</td>
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<tr>
<td>Surplus Above Required Reserve $674.9M</td>
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<tr>
<td>6.5% Reserve Requirement</td>
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</tbody>
</table>

Change relative to June: +$55.1 million attributable to stronger than expected income and sales tax collections.

Source: Legislative Council Staff forecasts based on current law.
Current Year | FY 2018-19 General Fund Reserve
Dollars in Millions

### June 2018 Forecast

- **8.1% Reserve**: $813.3M
- **Surplus Above Required Reserve**: $92.6M

### September 2018 Forecast

- **9.3% Reserve**: $229.5M
- **Required Reserve**: $813.3M

Change relative to June: +$136.9 million attributable to stronger expectations for income and sales tax collections in both FY 2017-18 and FY 2018-19

Source: Legislative Council Staff forecasts based on current law.
Next Year | FY 2019-20 Budget Outlook

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

$1.16 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.

Source: Legislative Council Staff September 2018 forecast based on current law and FY 2018-19 appropriations.
TABOR Outlook

Revenue Subject to TABOR

Dollars in Billions

Expected TABOR Surpluses

Referendum C Cap

TABOR Limit Base

Source: Colorado Office of the State Controller and Legislative Council Staff September 2018 forecast.
TABOR refund mechanisms are triggered in the order below based on the size of a TABOR surplus

1) Up to the full reimbursement amount to local governments for the senior homestead and disabled veteran property tax exemptions.*

2) Subject to sufficient revenue, a reduction in the individual income tax rate from 4.63% to 4.5% (would require at least a $400 million surplus).

3) Any left over is distributed via the six-tier sales tax refund mechanism. These refunds are paid when taxpayers file their income taxes and are based on a taxpayer’s filing status and adjusted gross income.

*Pursuant to SB17-267, the TABOR refund is first allocated toward reimbursements to local governments for the senior homestead and disabled veteran property tax exemption. Local government reimbursement amounts are not affected.
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**

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</thead>
<tbody>
<tr>
<td>Refunded in Fiscal Year:</td>
<td>2018-19</td>
<td>2019-20</td>
<td>2020-21</td>
<td></td>
</tr>
<tr>
<td>$37.5*</td>
<td>$209.4</td>
<td>$174.8</td>
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</tr>
<tr>
<td>No Surplus</td>
<td></td>
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</table>

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

*This amount includes the $16.2 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**

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**Six-Tier Sales Tax Refunds**

- **2018-19**: $62.4
- **2019-20**:
- **2020-21**: $174.8

**Reimbursements for Property Tax Exemptions**

- **2018-19**: $147.0
- **2019-20**: $154.6
- **2020-21**: $20.1

**No Surplus**

*This amount includes the $16.2 million FY 2017-18 surplus and $21.3 million in under-refunds from the FY 2014-15 surplus.*

Source: Colorado Office of the State Controller and Legislative Council Staff September 2018 forecast.
Risks to the Forecast

• **Near-term (FY 2018-19) risks are skewed to the upside**
  – Strong economic activity
  – Oil and gas activity
  – Federal tax policy distortions
  – Out-of-state 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
Questions?

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