



## State Budget Outlook

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### Colorado School Finance Project

March 23, 2018

## State Budget Outlook

- Why is the near-term budget outlook so strong?
- Why are the risks to the forecast so high?
- What is the longer-term outlook?

## Economic Summary

### The near-term outlook is bright

- Wages are rising as the labor market tightens
- Stronger global demand is contributing to inflationary pressures
- Business investment and profits are elevated
- Consumer spending continues to rise

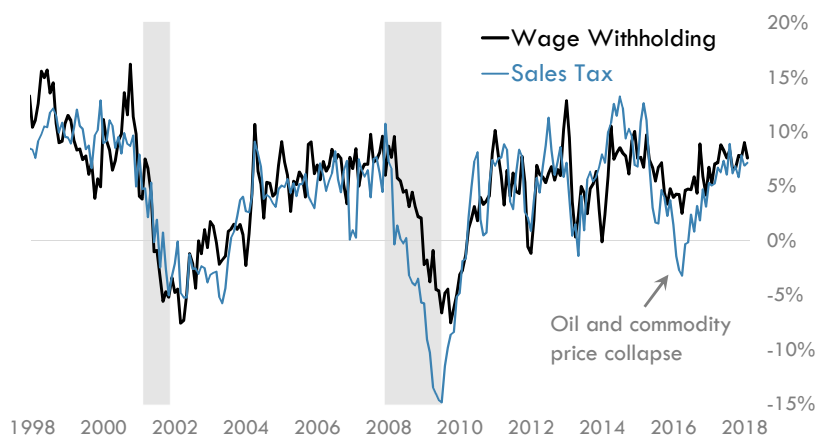
### Risks remain elevated

- Risk of overheating in the late stages of expansion
- Rising interest rates will shift investor behavior
- Geopolitical risk and policy uncertainty cloud the outlook

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## Sales tax and income tax collections have accelerated in FY 2017-18.

Year-over-Year Percent Change in State Tax Collections

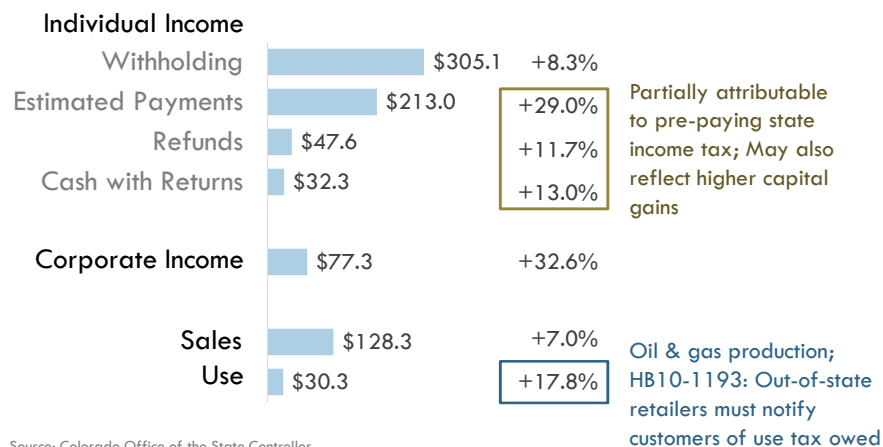


Source: Colorado Office of the State Controller. Data are seasonally adjusted by Legislative Council Staff and shown as three-month moving averages to further smooth calendar effects and unusual collections patterns.

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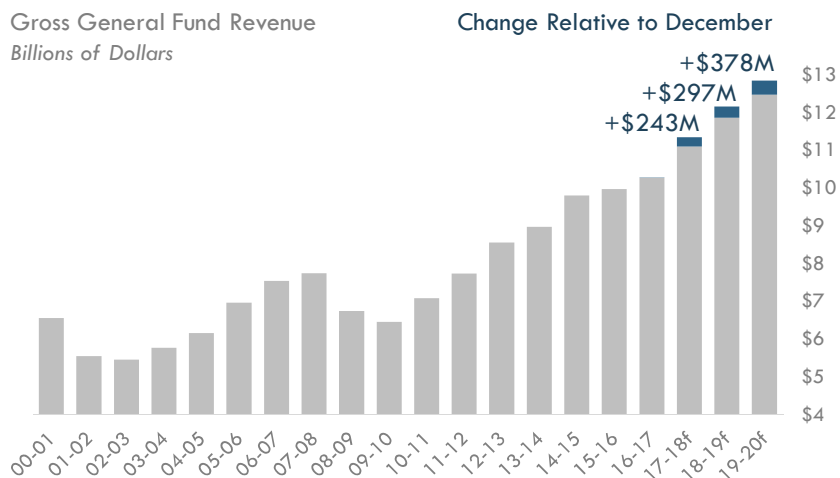
### Risk #1: TCJA-related distortions are difficult to disentangle from underlying economic growth.

Change in General Fund Revenue by Major source  
 July 2017 through February 2018 (First 8 Months) over the same period last year  
 Dollars in Millions



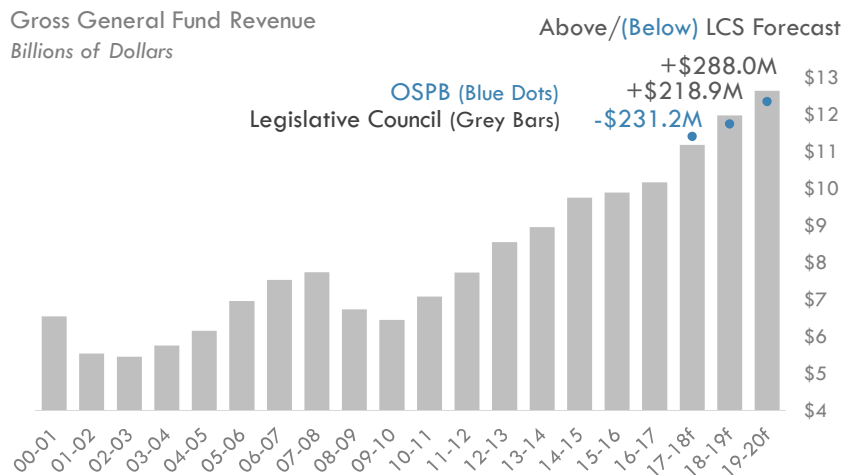
Source: Colorado Office of the State Controller.  
 February 2018 data are preliminary and provided by the Department of Revenue.

### The LCS revenue forecast was revised upward significantly on stronger collections to date and a stronger economic outlook.



Source: Colorado Office of the State Controller and Legislative Council Staff March 2018 forecast.  
 Amounts include estimated impacts of the federal Tax Cuts and Jobs Act.

**OSPB and LCS General Fund revenue forecasts differ, yet budget outlooks converge in FY 2018-19.**



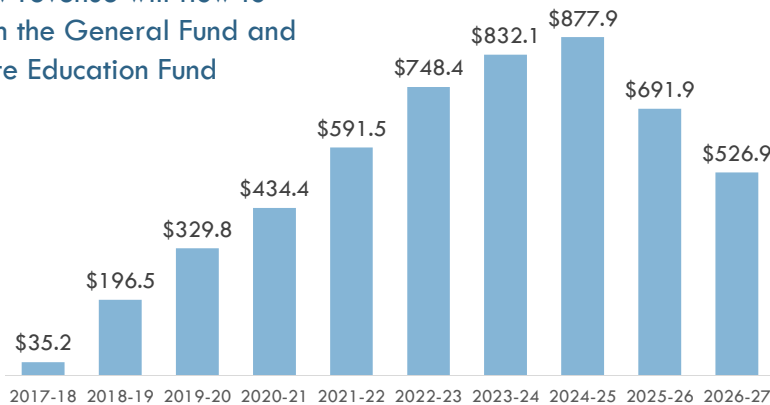
Source: Colorado Office of the State Controller and Legislative Council Staff and OSPB March 2018 forecasts. Amounts include estimated impacts of the federal Tax Cuts and Jobs Act.

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**Risk #2: State revenue impacts of the federal Tax Cuts and Jobs Act remain uncertain.**

Dollars in Millions

**New revenue will flow to both the General Fund and State Education Fund**



Source: Legislative Council Staff estimates. Estimates remain preliminary and subject to change.

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## Tax Bill Provisions with the Largest Colorado Impacts

The federal tax bill **broadens the tax base** and **lowers federal tax rates**. For the state of Colorado, the bill **broadens the tax base**, while rates remain constant.

### Individual Income Tax

- ↓ Roughly doubles the standard deduction
- ↑ Modifies several itemized deductions
- ↑ Repeals the deduction for personal exemptions

### Businesses Income Tax

- ↓ Allows a 20% deduction for pass-through entities
- ↓↑ Allows immediate expensing for depreciation of property
- ↑ Limits interest and net operating loss deductions

For more information, see: <http://leg.colorado.gov/publications/federal-tax-legislation-interested-persons-memo>

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## How Are Individual Income Taxes Calculated?



### Federal

Gross Income - "Above-the-Line" Deductions = Adjusted Gross Income

Adjusted Gross Income - Personal Exemptions - Standard or Itemized Deductions = Federal Taxable Income

Federal Taxable Income × Tax Rates - Tax Credits = Net Federal Taxes Owed

At the federal level, the federal tax bill **broadens the tax base** and **lowers tax rates**. On net, these changes lower taxes owed by most taxpayers and lower federal tax revenue.

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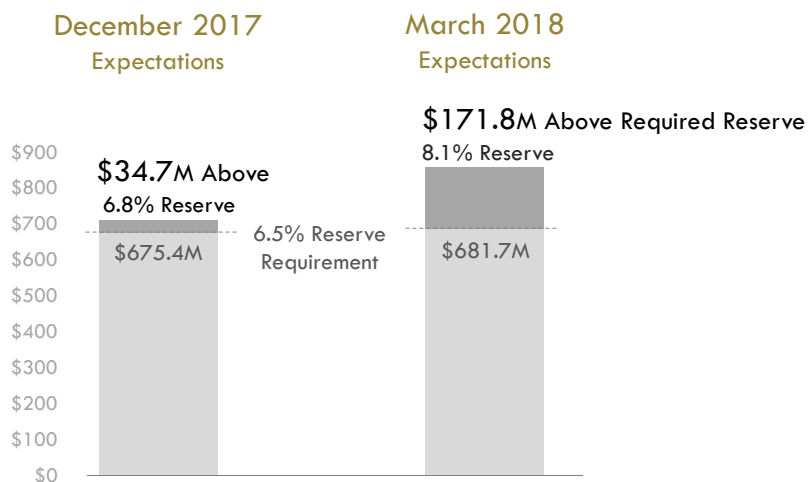
### Colorado

Federal Taxable Income + State Additions - State Subtractions = Colorado Taxable Income

Colorado Taxable Income × 4.63% Tax Rate - State Tax Credits = Net Colorado Taxes Owed

## FY 2017-18 General Fund Reserve

Millions of Dollars

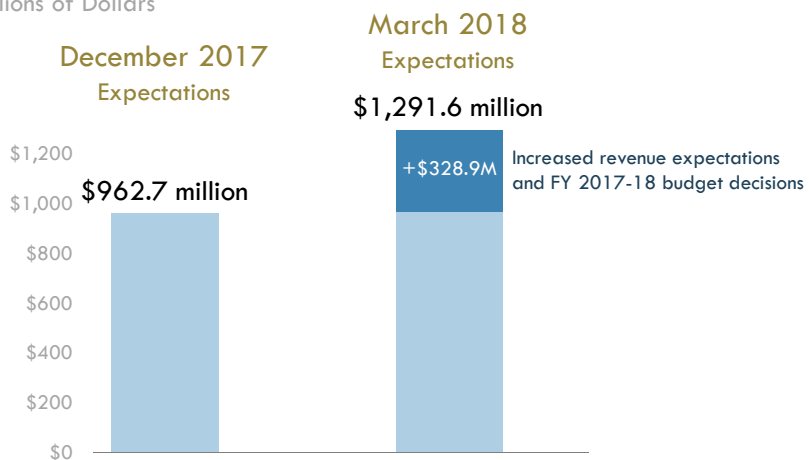


Source: Legislative Council Staff forecasts based on current law. Amounts include estimated impacts of the federal Tax Cuts and Jobs Act.

### FY 2018-19 Budget Outlook

General Funds available above FY 2017-18 appropriations to spend, save, or return to taxpayers

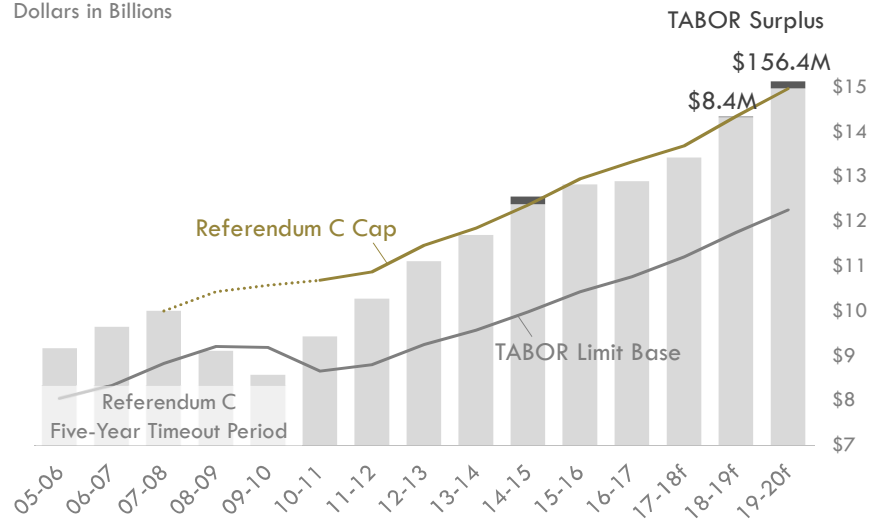
Millions of Dollars



Source: Legislative Council Staff forecasts based on current law. Amounts include estimated impacts of the federal Tax Cuts and Jobs Act.

### March 2018 TABOR Outlook

Revenue Subject to TABOR  
Dollars in Billions



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

## TABOR Refund Budget Impacts

General Fund Set-Asides... ...go toward reimbursements to local governments for property tax exemptions in the next fiscal year\*

FY 2018-19 **\$8.4 million** → FY 2019-20 **\$8.4 million** FY 2018-19 surplus  
 + \$21.8 million FY 2014-15 remaining surplus  
**\$30.3 million** toward reimbursements

FY 2019-20 **\$156.4 million** → FY 2020-21 **\$156.4 million** toward reimbursements

\*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 reimbursements are not reduced. Instead, TABOR surplus revenue is set aside to pay for these reimbursements in the following budget year.

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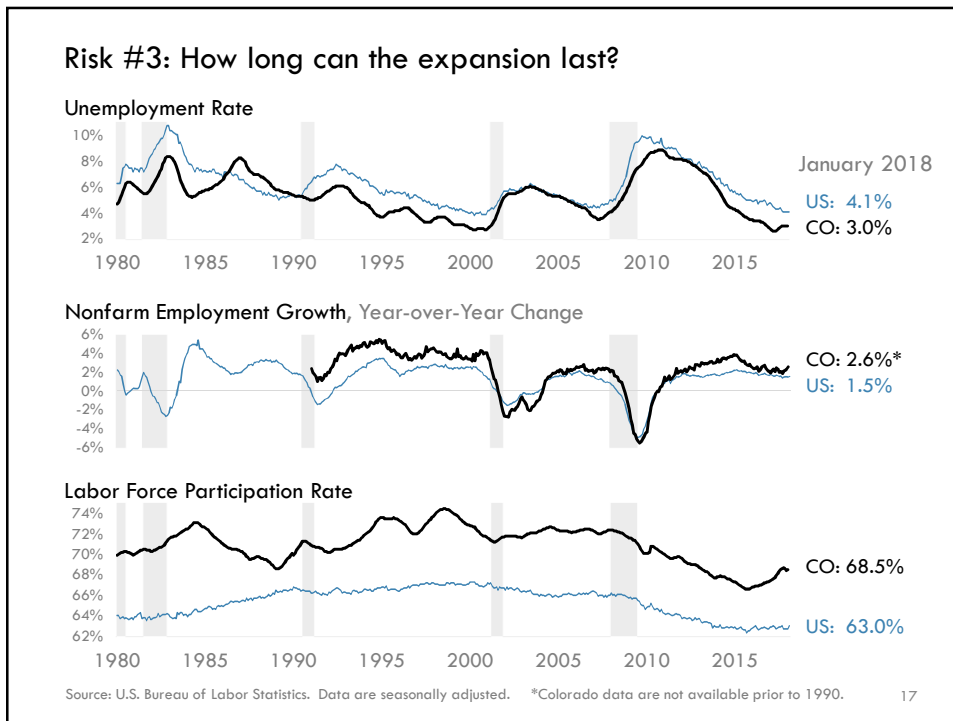
## Risks to the revenue forecast are elevated

1. Unusual shifts in taxpayer behavior in recent months
2. Federal Tax Cuts and Jobs Act impacts remain uncertain
3. Late stages of the economic expansion, more susceptible to shocks



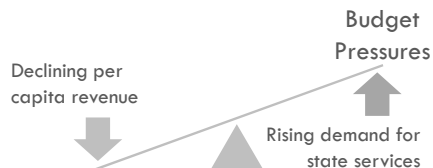
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While the near-term budget situation is relatively rosy, budgetary pressures will persist over the long term.

- **Aging population** = lower per capita income and sales tax
- **State tax structure constraints**
  - Shifts from brick and mortar to online, from goods to services
  - Erosion of gas tax revenue with higher fuel efficiency
  - TABOR Amendment limits revenue the state may spend or save
  - Gallagher Amendment requires the residential assessment rate to fall
- **Demand for services outpacing revenue growth**
  - Amendment 23 K-12 funding requirements
  - Aging infrastructure
  - Population growth



## Questions?

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## Oil prices are increasing...

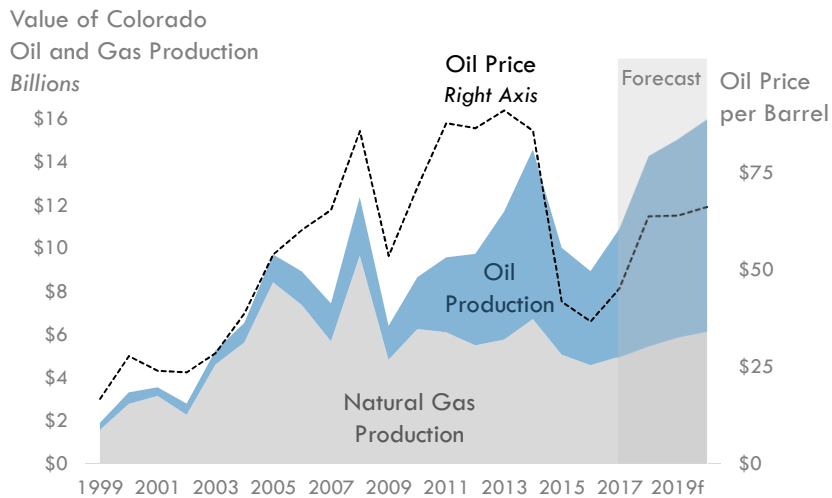
Price per Barrel of Oil Received by Colorado Producers



Source: U.S. Energy Information Administration and Colorado Legislative Council Staff March 2018 forecast.

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...leading to more production.

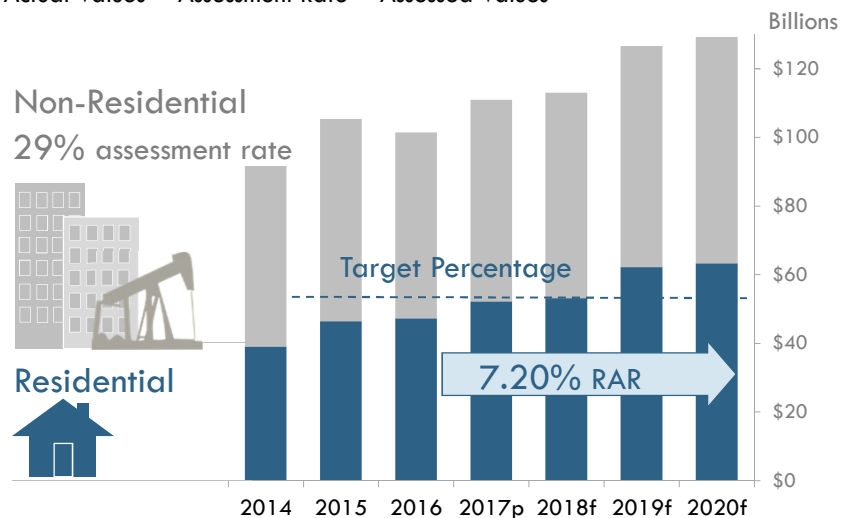


Source: U.S. Energy Information Administration and Colorado Legislative Council Staff March 2018 forecast.

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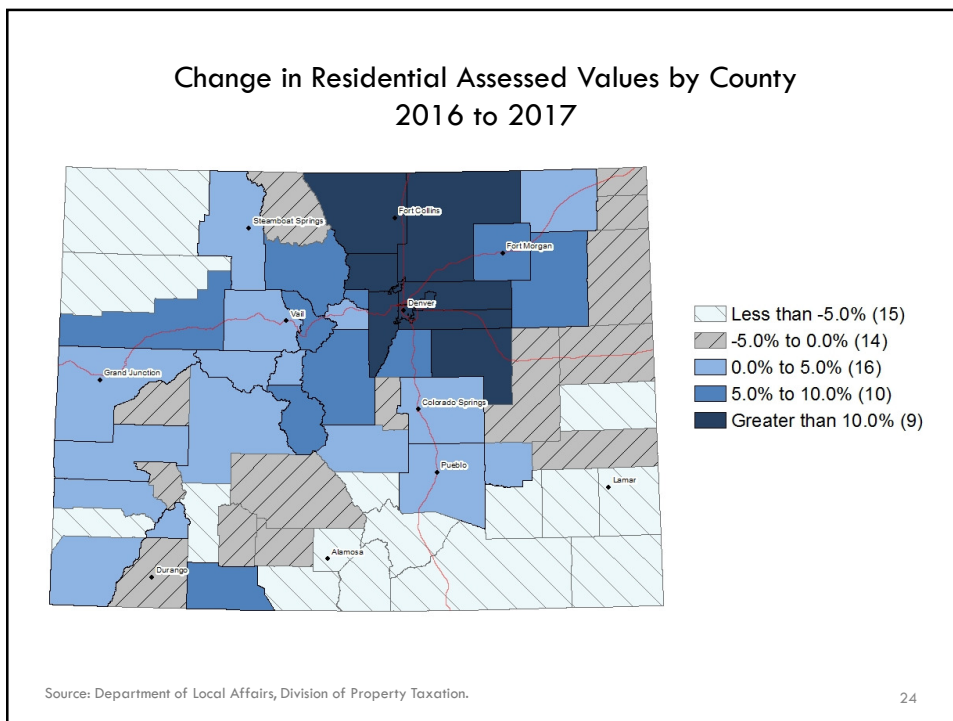
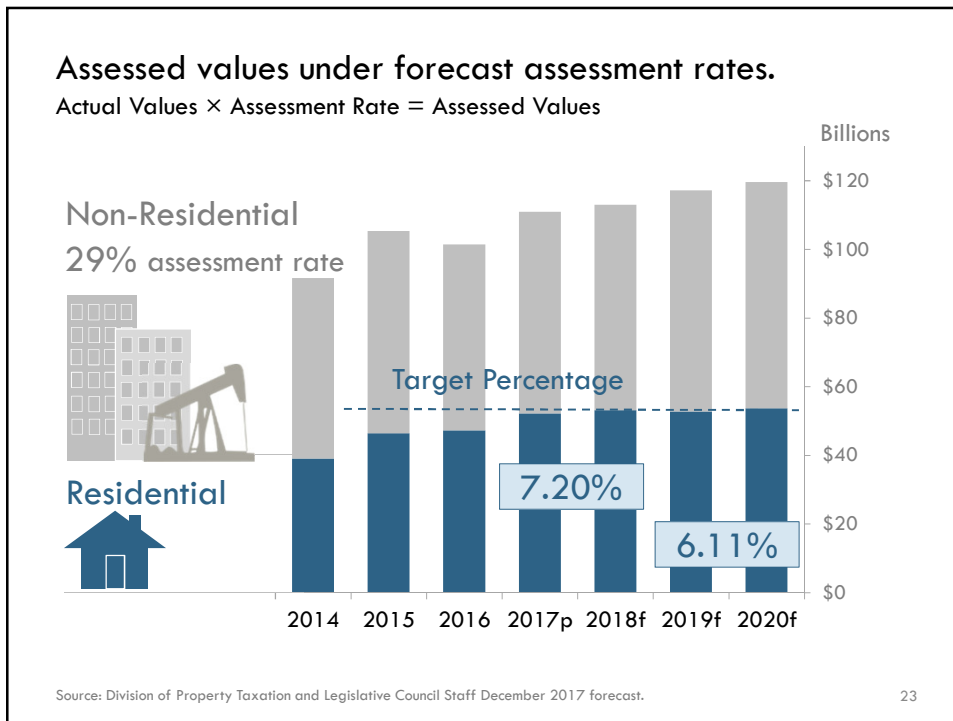
Assessed values under current assessment rates.

Actual Values × Assessment Rate = Assessed Values

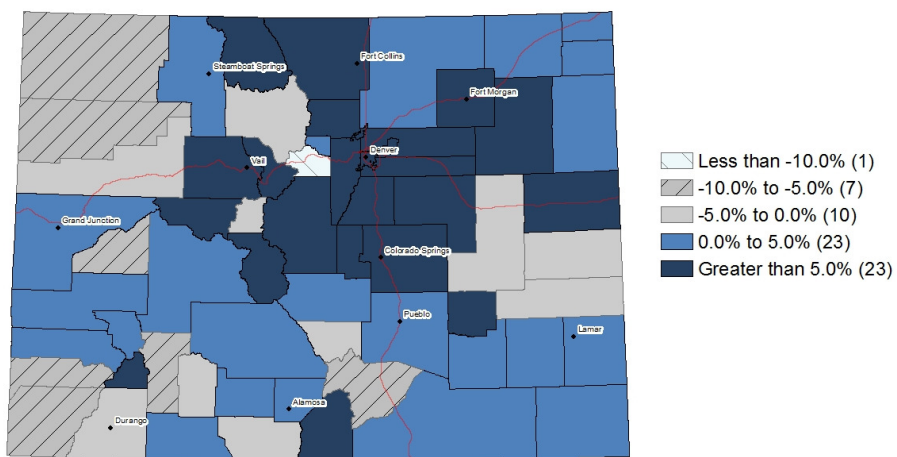


Source: Division of Property Taxation and Legislative Council Staff December 2017 forecast.

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### Change in Total Assessed Values by County 2016 to 2017



Source: Department of Local Affairs, Division of Property Taxation.

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