State Budget Outlook

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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

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.
Consumer spending rises and falls with age

Average 2015 Expenditures

<table>
<thead>
<tr>
<th>Age</th>
<th>$0</th>
<th>$10,000</th>
<th>$20,000</th>
<th>$30,000</th>
<th>$40,000</th>
<th>$50,000</th>
<th>$60,000</th>
<th>$70,000</th>
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<tr>
<td>&lt;25</td>
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<td>25-34</td>
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<td>35-44</td>
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<td>45-54</td>
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<td>55-64</td>
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<td>65-74</td>
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<td></td>
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<td>75+</td>
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</tbody>
</table>

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


Slowdown in real consumer spending

Real U.S. Retail and Food Service Sales
Percent Change, Year-over-Year

Incomes peak for those in their 40s and 50s

Average 2015 Incomes


Slowdown in real wage growth

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

Taxes peak for those in their 40s and 50s

Average 2015 Taxes

- Property taxes
- Other taxes
- State and local income taxes
- Federal income taxes


Per Capita Inflation-Adjusted General Fund Revenue

Source: The Office of the State Controller & LCS September 2016 Revenue Forecast.
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

What the General Fund Pays For

<table>
<thead>
<tr>
<th>FY 2006-07, $6.8 Billion</th>
<th>FY 2016-17, $9.9 Billion</th>
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</thead>
<tbody>
<tr>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>$2</td>
<td>$2</td>
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<td>$4</td>
<td>$4</td>
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<td>$6</td>
<td>$6</td>
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<tr>
<td>$8</td>
<td>$8</td>
</tr>
<tr>
<td>$10</td>
<td>$10</td>
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</tbody>
</table>

42%, P-12 Education
10%, Higher Education
5%, Judicial
9%, Corrections
3%, Judicial

<table>
<thead>
<tr>
<th>FY 2006-07, $6.8 Billion</th>
<th>FY 2016-17, $9.9 Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
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<tr>
<td>$2</td>
<td>$2</td>
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<td>$4</td>
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<tr>
<td>$8</td>
<td>$8</td>
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<tr>
<td>$10</td>
<td>$10</td>
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</tbody>
</table>

38%, P-12 Education
9%, Higher Education
27%, Health Care Policy & Fin.
8%, Human Services

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

Index FY 2000-01 = 100


*Excludes newly eligible caseload funded by the federal government pursuant to the Affordable Care Act, which added an additional 411,000 in FY 2015-16.

TABOR and Referendum C

Billions of Dollars

Source: Colorado State Controllers Office and Legislative Council Staff, September 2016 Forecast.
Where are we?
FY 2016-17 School Finance
Total Funding (bars) and Per Pupil ("PP"); labels

- 11.5% negative factor
- State General Fund budget in cutting mode
- State Education Fund balance depleted

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
### Major Needs Identified for FY 2017-18

<table>
<thead>
<tr>
<th></th>
<th>Governor's Request¹⁰</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 New Enrollment &amp; Inflation</td>
<td>$243.5</td>
</tr>
<tr>
<td>TABOR Refund Obligation</td>
<td>195.0</td>
</tr>
<tr>
<td>SB 228 Transfers</td>
<td>164.0</td>
</tr>
<tr>
<td>New Medicaid Costs</td>
<td>142.8</td>
</tr>
<tr>
<td>Refill Reserve to 6.5%</td>
<td>180.8</td>
</tr>
<tr>
<td>Total:</td>
<td>$926.1</td>
</tr>
</tbody>
</table>

¹⁰Governor’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. |

### Needs Relative to New Revenue, FY 2017-18

<table>
<thead>
<tr>
<th></th>
<th>Governor's Request¹⁰</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum of Major Needs</td>
<td>$926.1</td>
</tr>
<tr>
<td>New General Fund Revenue</td>
<td>$426.0</td>
</tr>
<tr>
<td>Gap</td>
<td>$500.1</td>
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</tbody>
</table>

¹⁰Governor’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.**
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

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.
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
Property Tax Assessed Values, $Billions

Includes Tax Increment Financing

Statewide (bars, right axis)

$85.8B 2.8%

St. Vrain (line, left axis)

$2.28B 2.2%

December 2015 Forecast

-5.3% -5.1% 1.7% 3.3% 15.0% 7.0% 1.3%

Source: Legislative Council Staff December 2014 Forecast; Colorado Division of Property Taxation.

General Fund Revenue

Billions of Dollars

September 2016 Expectations:
Bars and figures represent LCS Forecast
Dots represent OSPB Forecast

Source: The Office of the State Controller & LCS, OSPB September 2016 Revenue Forecasts.
Relative State and Local Shares of School Finance, 1983 to FY 2016-17

Note: Prior to 1993, K-12 funding was done on a calendar year basis.

Residential Assessment Rate and Mill Levy

Source: Colorado Department of Local Affairs, Division of Property Taxation
Reference Slide
K-12 Enrollment FTE Growth
Includes Charter School Institute and Online Program Enrollment.

<table>
<thead>
<tr>
<th>Year</th>
<th>State 1</th>
<th>State 2</th>
<th>State 3</th>
<th>State 4</th>
<th>State 5</th>
<th>State 6</th>
<th>State 7</th>
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</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>1.7%</td>
<td>0.7%</td>
<td>1.6%</td>
<td>0.8%</td>
<td>1.5%</td>
<td>1.7%</td>
<td>0.8%</td>
</tr>
<tr>
<td>2009-10</td>
<td>3.7%</td>
<td>1.9%</td>
<td>2.5%</td>
<td>1.6%</td>
<td>2.9%</td>
<td>2.8%</td>
<td>1.0%</td>
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<tr>
<td>2010-11</td>
<td>4.3%</td>
<td>2.5%</td>
<td>4.3%</td>
<td>1.7%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>1.0%</td>
</tr>
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</table>

Source: Legislative Council Staff December 2015 Forecast; Colorado Department of Education.

Reference Slide
Revenue Limit: TABOR
Billions of Dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue</th>
<th>Surplus Refunded</th>
<th>Voter-Approved Revenue (Includes Ref. C)</th>
<th>Revenue Under Original TABOR Limit</th>
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</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>$5.0</td>
<td>$0.0</td>
<td>$5.0</td>
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<tr>
<td>1994-95</td>
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<tr>
<td>1995-96</td>
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<td>$1.0</td>
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<tr>
<td>1996-97</td>
<td>$6.5</td>
<td>$1.5</td>
<td>$5.5</td>
<td>$1.5</td>
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Source: Colorado State Controllers Office, TABOR Schedule of Computations.