



June 2020 | Legislative Council Staff

Economic & Revenue Forecast

Colorado School Finance Project

June 26, 2020

Presentation Overview

- **Economic Outlook:** Some knowns but more unknowns
- **General Fund Budget:** Budget balancing amid ongoing uncertainty
- **November Election Ballot Measures**

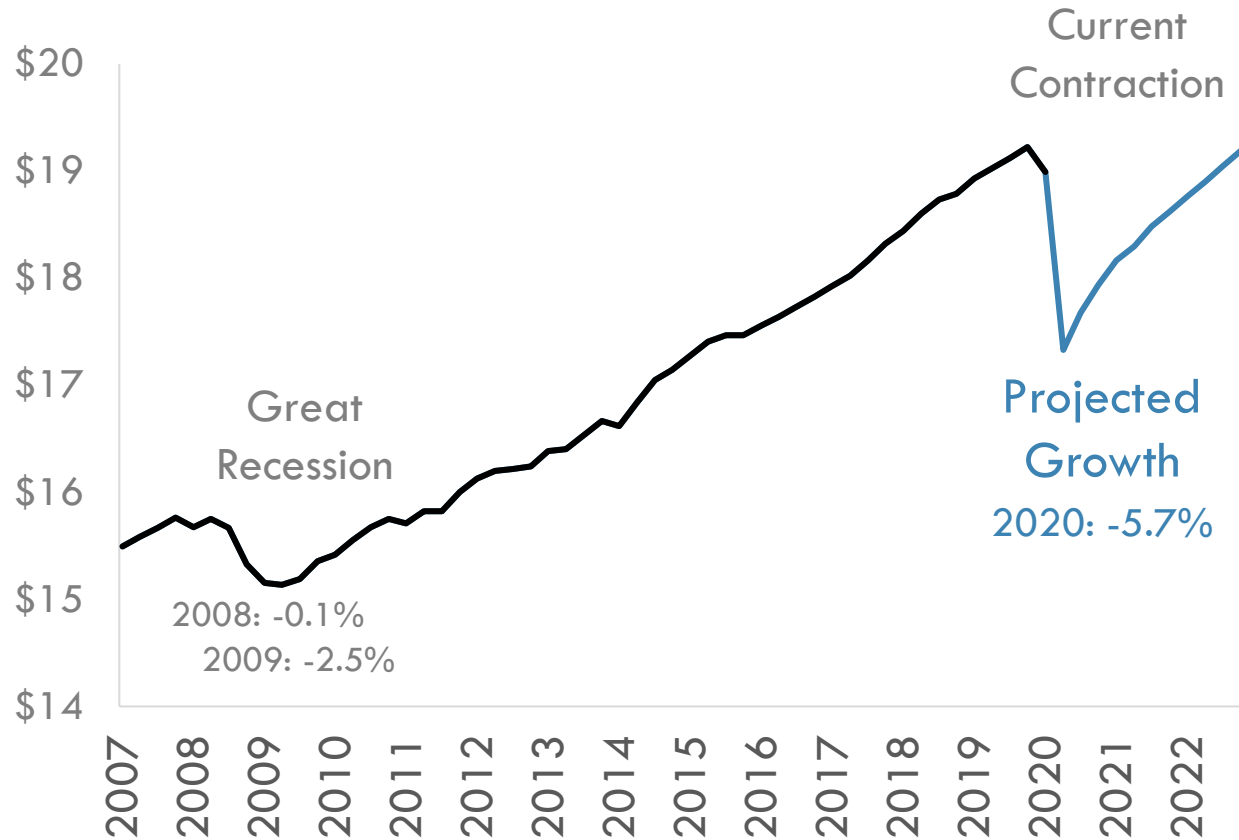
Economic Outlook



Shape of Recovery

Real U.S. Gross Domestic Product

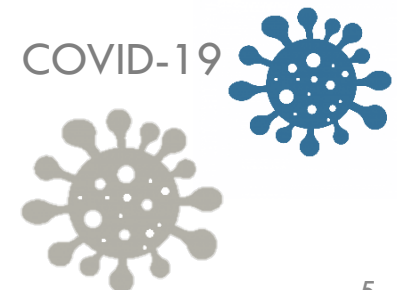
Dollars in Trillions



Source: U.S. Bureau of Economic Analysis and Legislative Council Staff projections, including projected 2020Q1 revisions. Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

COVID-19-Related Forecast Assumptions

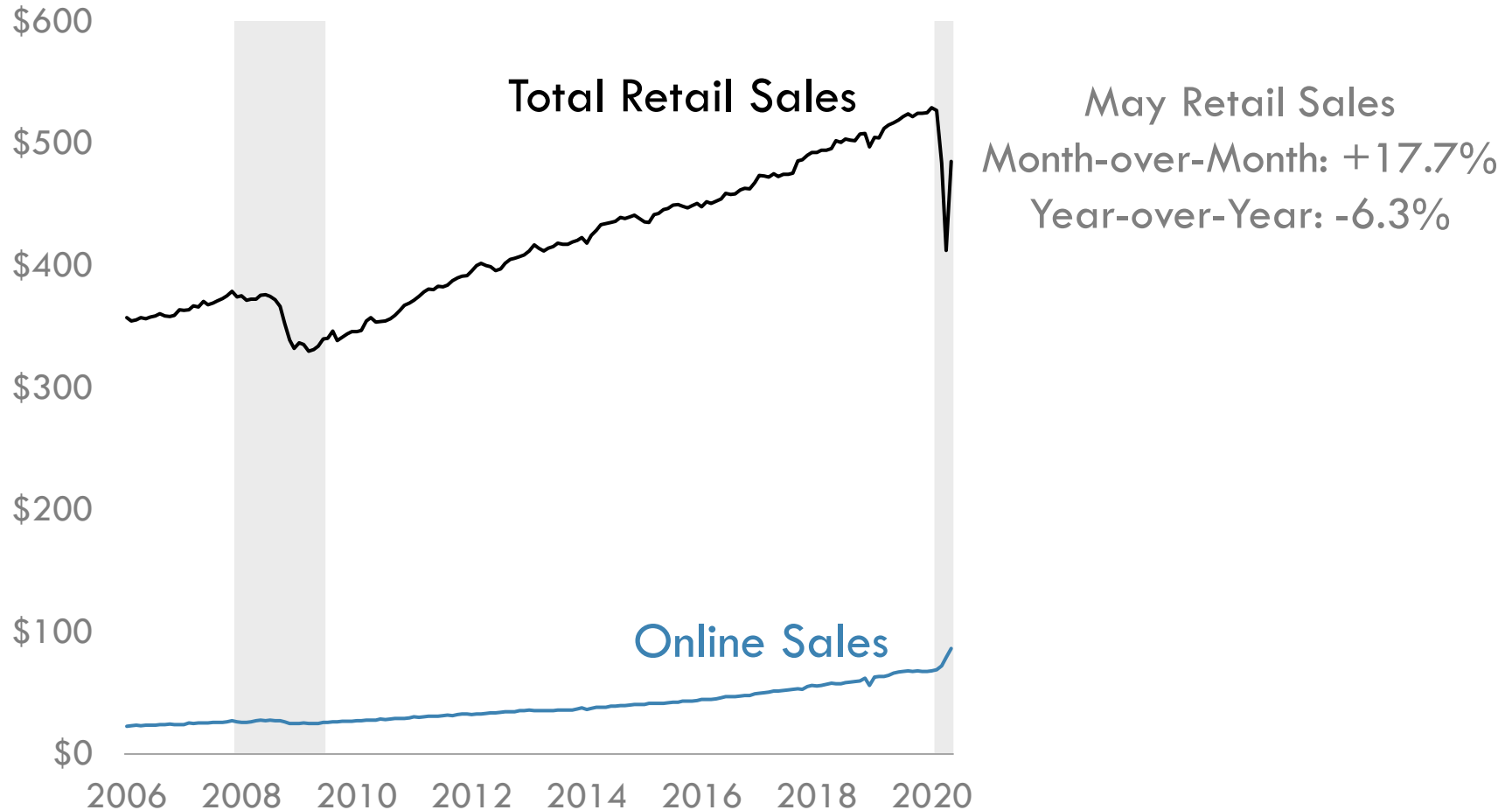
- Gradual reopening of businesses throughout 2020
- Limited regional resurgences of the virus, but no additional widespread outbreaks or stay-at-home orders
- An effective COVID-19 treatment available in 12 to 18 months



U.S. retail sales picked up in May

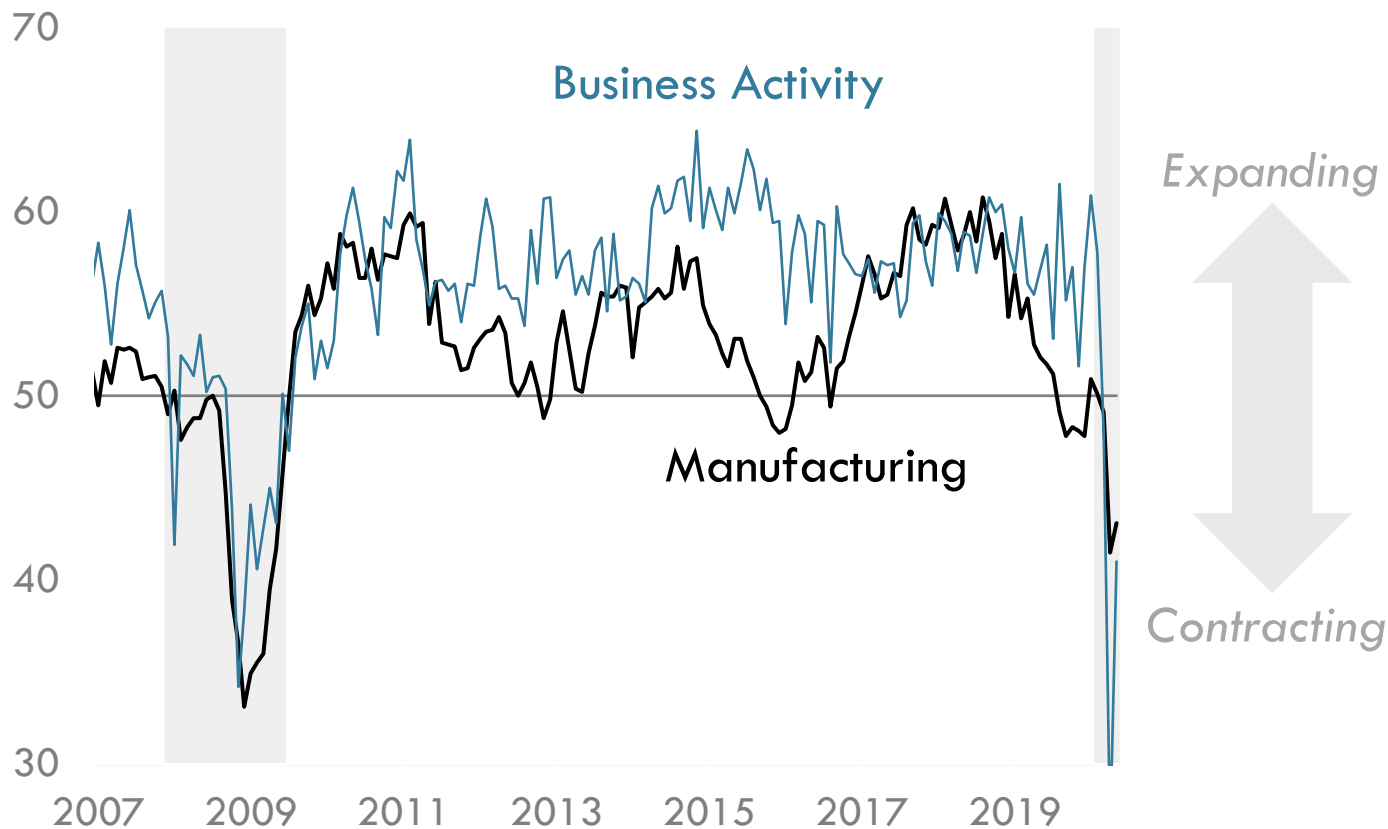
Monthly U.S. Retail Sales

Dollars in Billions



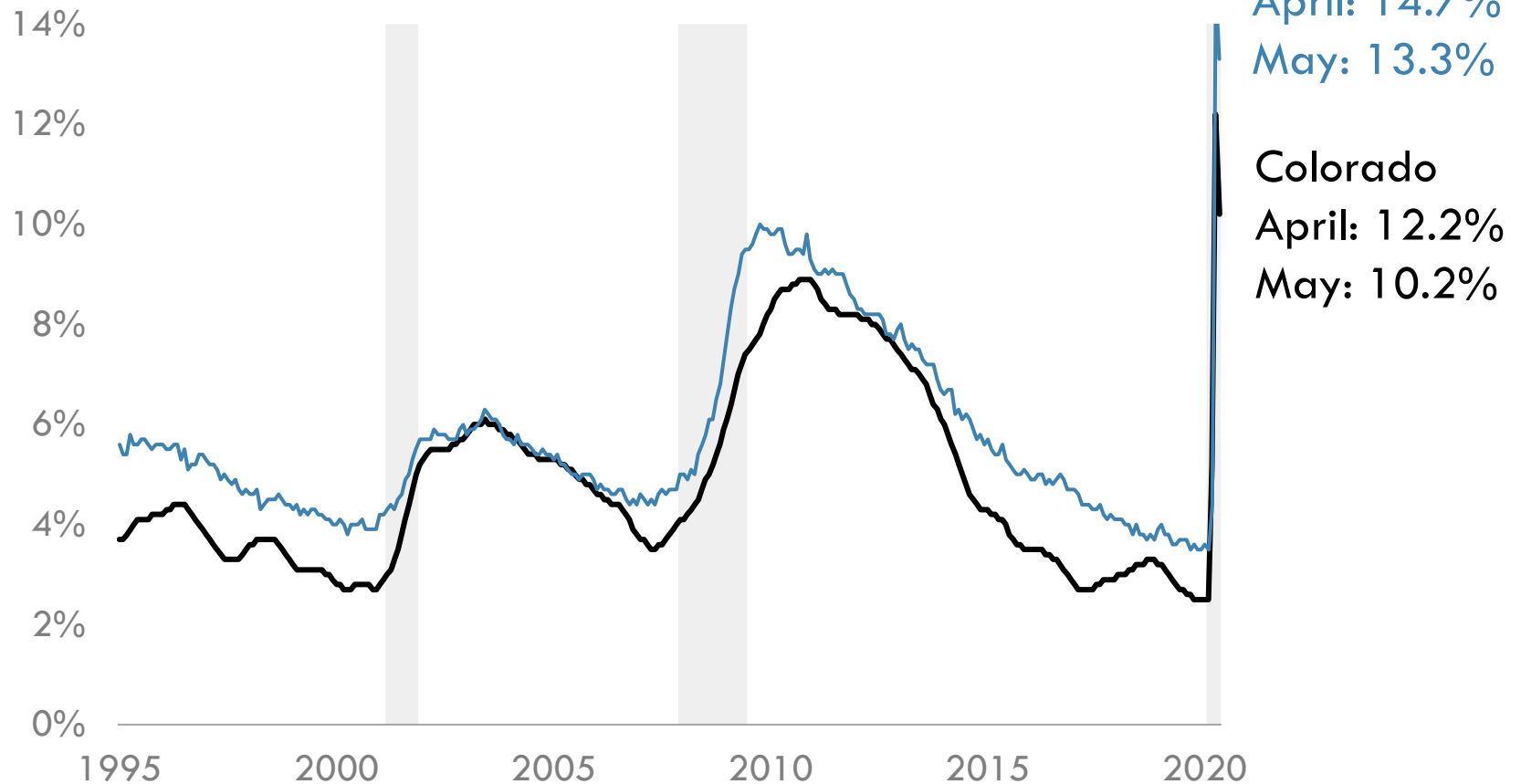
While manufacturing and business activity remain in contractionary territory

Institute for Supply Management Indices
Diffusion Index



Unemployment improved in *May* but remains at historic highs

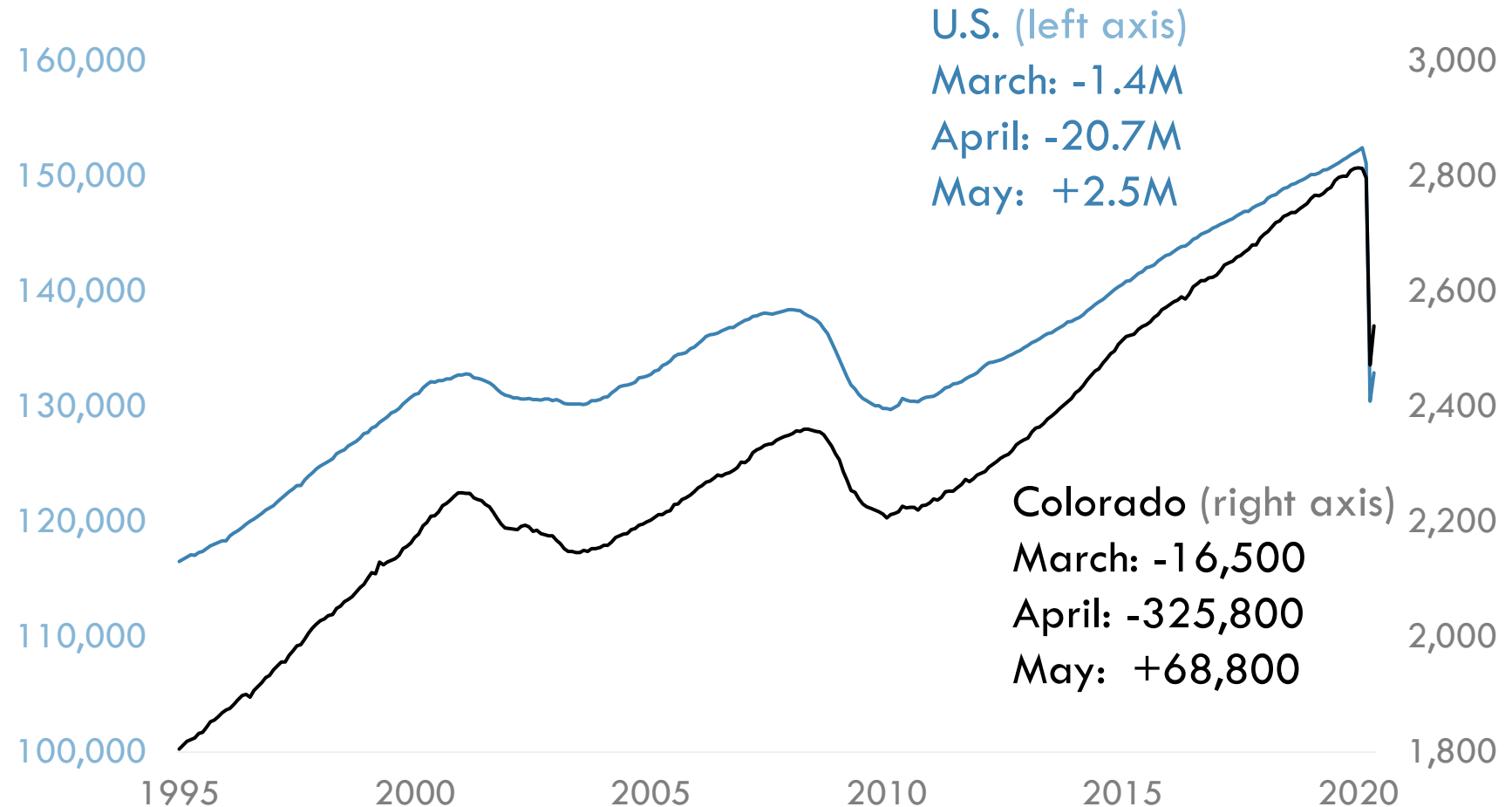
Unemployment Rates



A fraction of the jobs lost in March and April were recovered in May

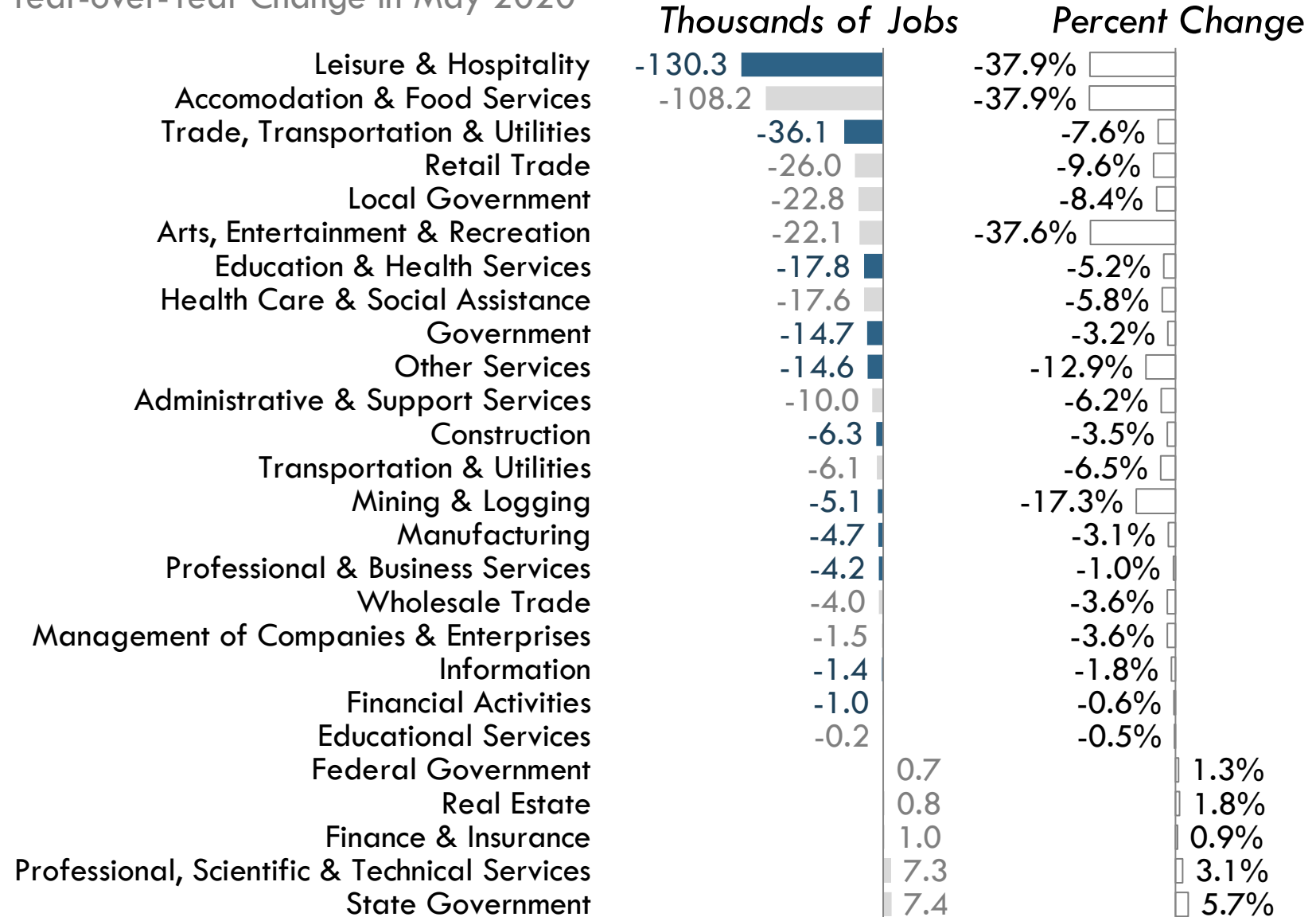
Nonfarm Employment

Thousands



Colorado Nonfarm Employment

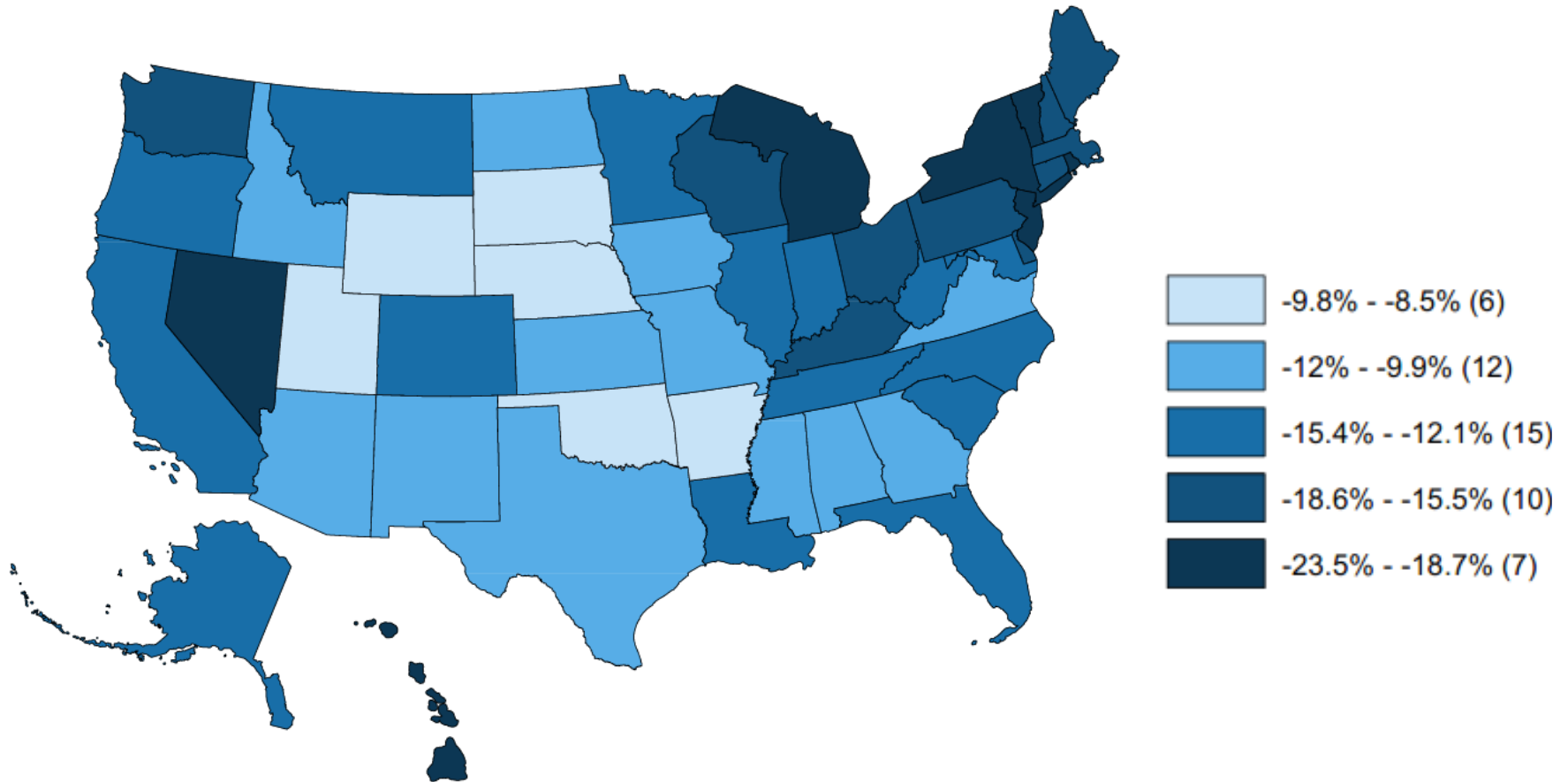
Year-over-Year Change in May 2020



Source: U.S. Bureau of Labor Statistics. Seasonally adjusted. Blue bars indicate super-sectors.

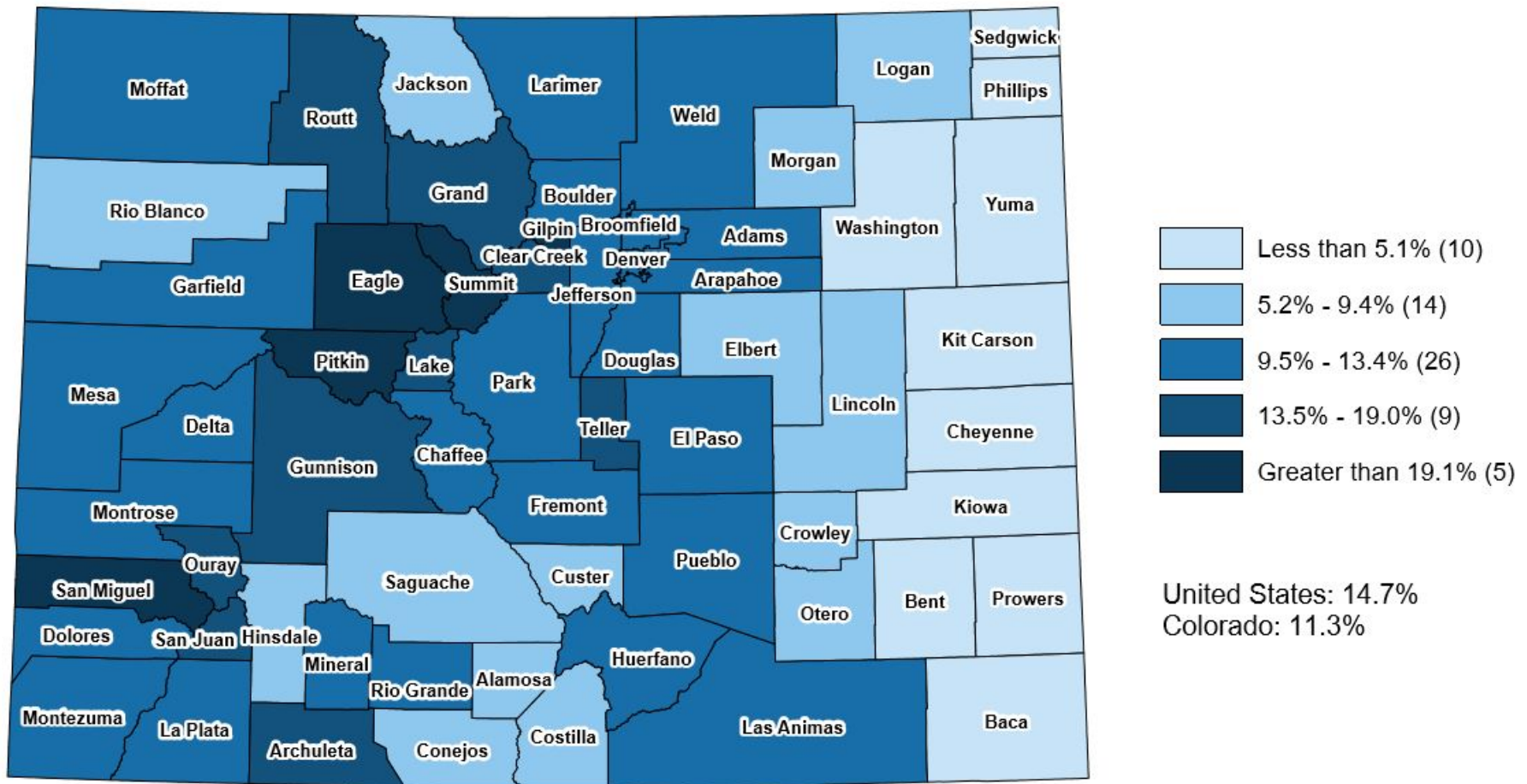
States most reliant on tourism and COVID-19 hotspots saw the largest job losses

Job Losses between February and April 2020



Colorado counties most reliant on tourism have the highest unemployment

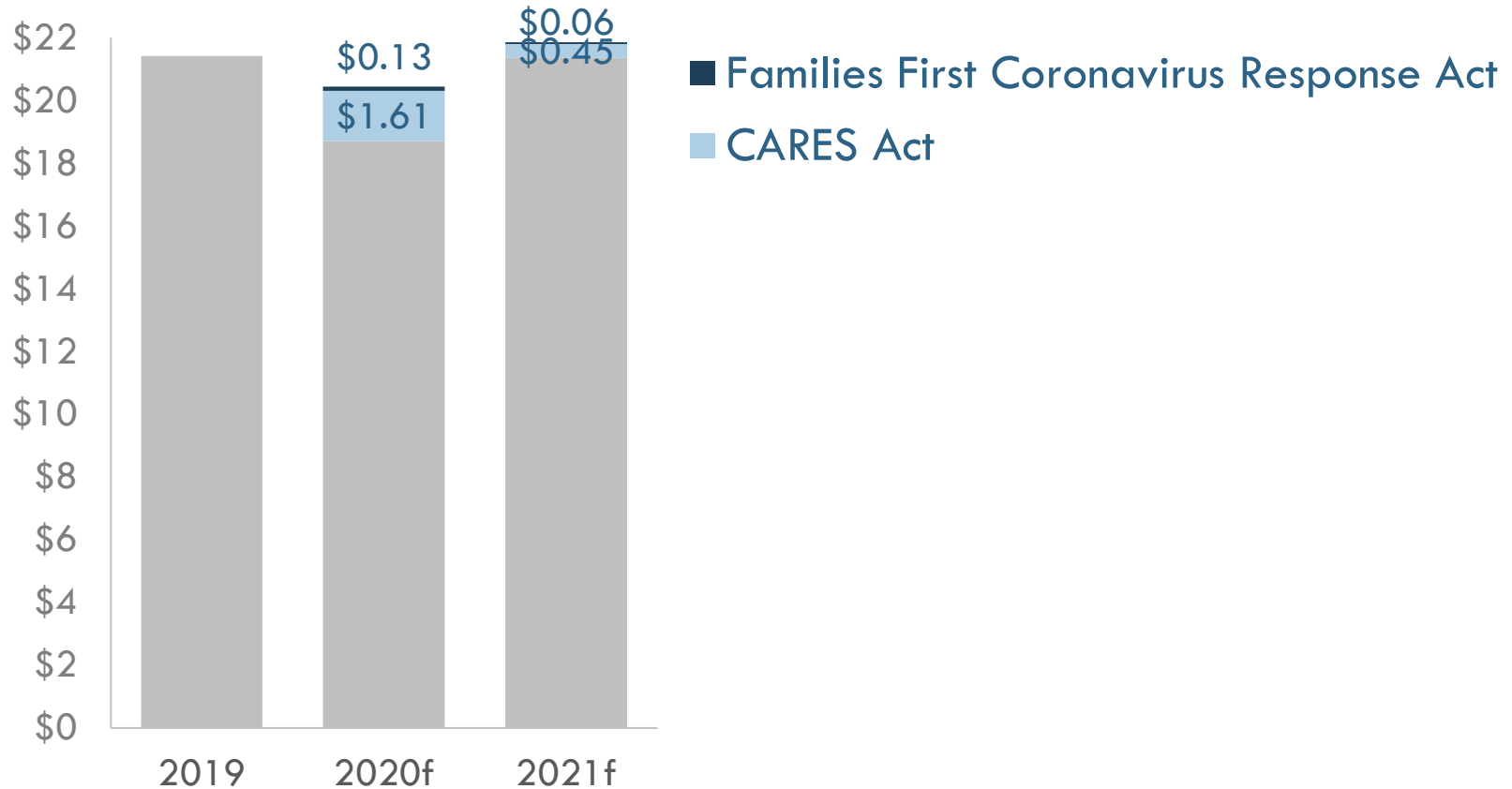
April 2020 Unemployment Rates



Unprecedented federal stimulus will partially offset deep declines in economic activity

Nominal U.S. GDP and the Federal Stimulus* Contribution

Trillions of Dollars



Source: Congressional Budget Office and Legislative Council Staff projections (f). Estimates subject to change.

*Reflects direct federal government spending. Excludes up to \$4.5 trillion in loans to businesses, states, and municipalities via the Federal Reserve lending facility.

Reduced travel activity continues to constrain oil markets

West Texas Intermediate

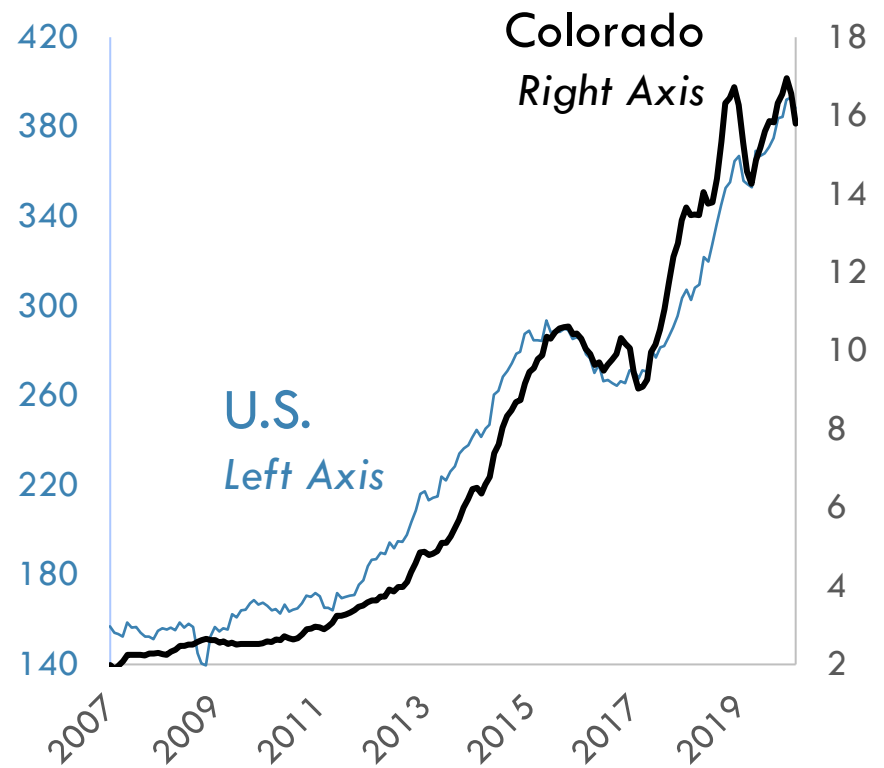
Crude Oil Price

Dollars per Barrel



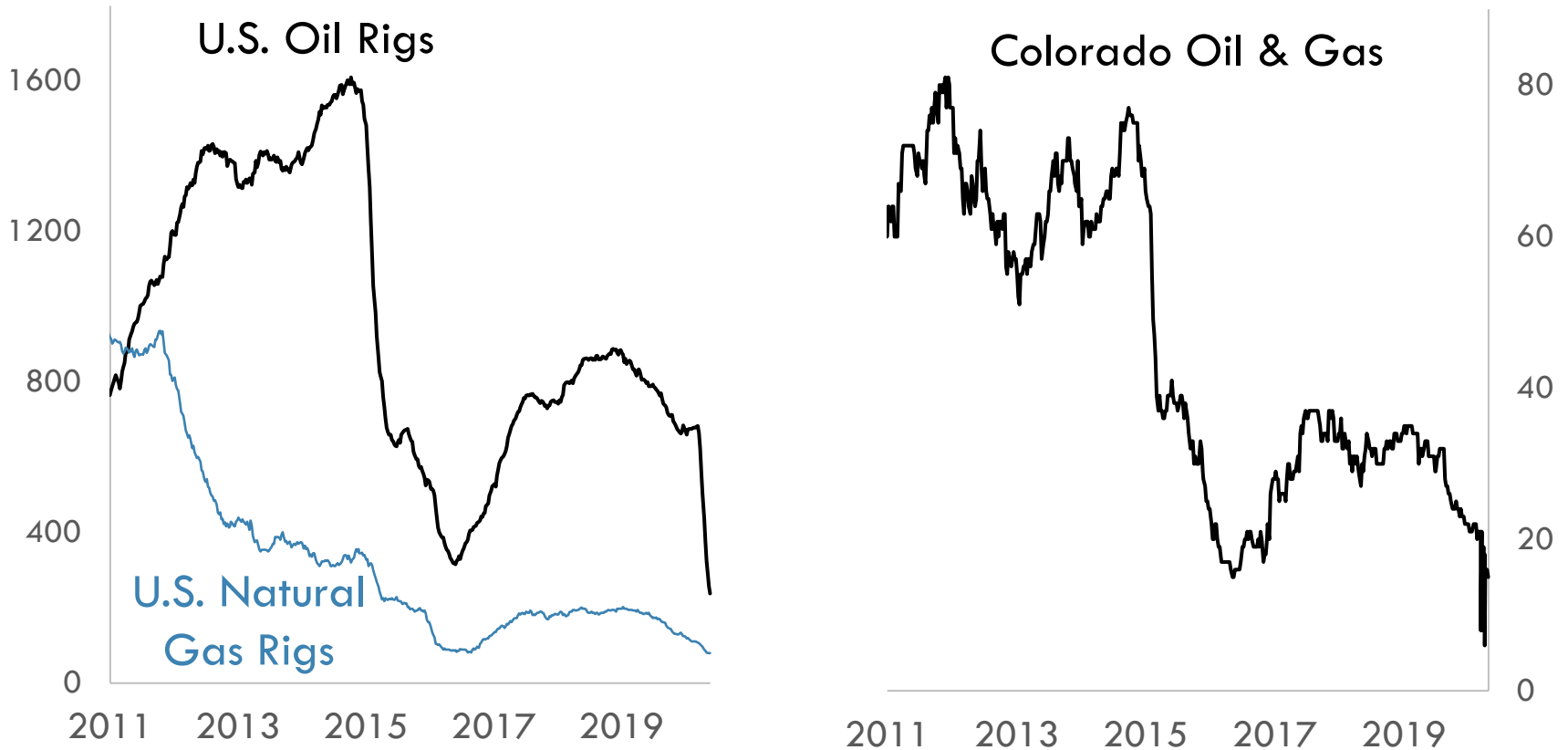
Crude Oil Production

Millions of Barrels per Month



New drilling activity continues to fall off

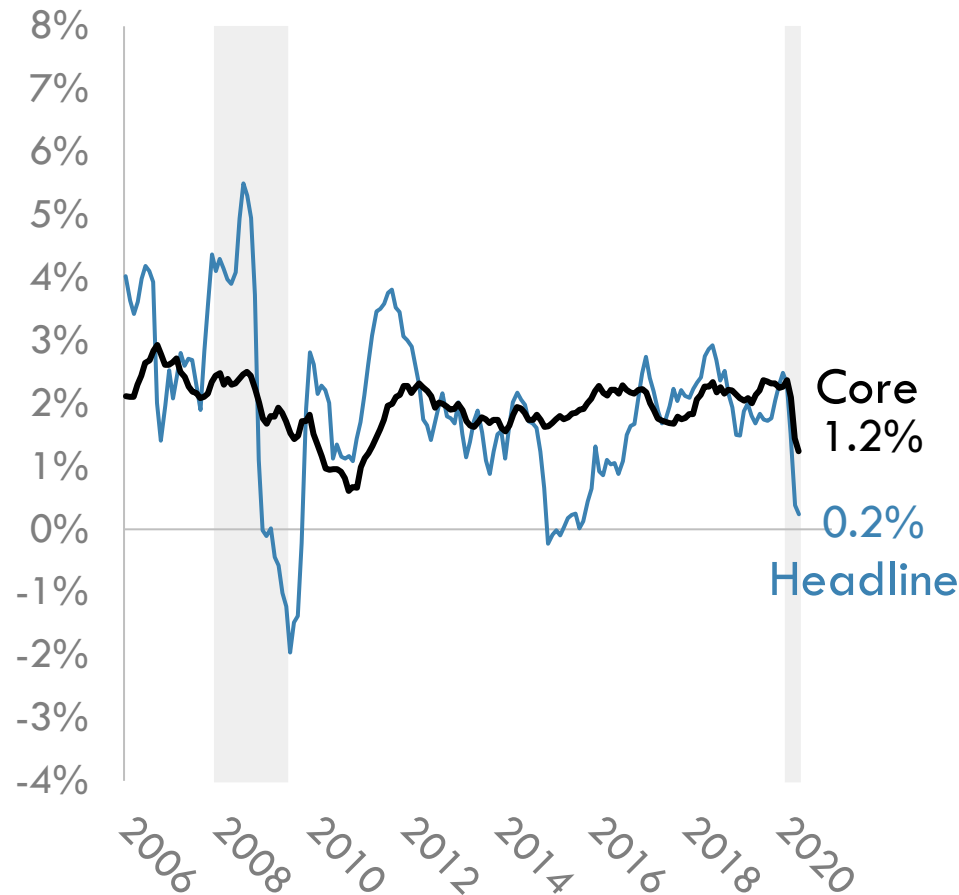
Active Drilling Rigs



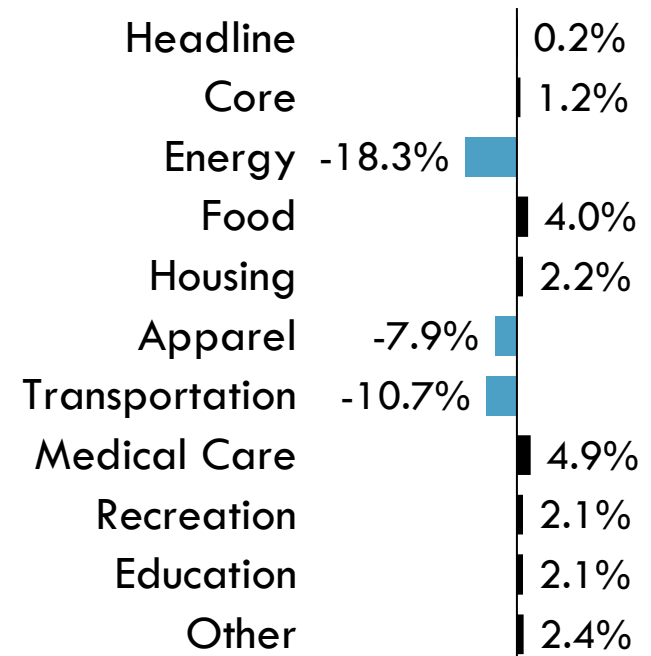
Deflationary risk outweighs inflationary pressure

U.S. City Average CPI-U Inflation

Year-over-Year Change in Prices



Selected Components, May 2020



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.

Outlook Summary

- Economic activity outperformed expectations in May slightly, though the recession is still severe
- The recovery will impact economic sectors and geographic regions differently
- Business activity and consumer spending will continue to improve, but remain constrained by ongoing restrictions, health concerns, uncertainty, and some permanent closures
- Labor markets will remain weak in the industries most affected by COVID-19-related closures
- Inflationary pressures will remain subdued as low energy prices, low global demand offset global supply constraints

Risks to the Forecast

Downside

- Strong resurgence of COVID-19
- Larger than expected additional waves of layoffs
- Double-dip recession

Upside

- COVID-19 vaccine delivered sooner than expected
- Additional federal stimulus
- Structural shifts resulting in innovations

General Fund Budget Outlook



General Fund collections will decline with the contraction in business and household income, and reduced consumer activity

Gross General Fund Revenue

Billions of Dollars

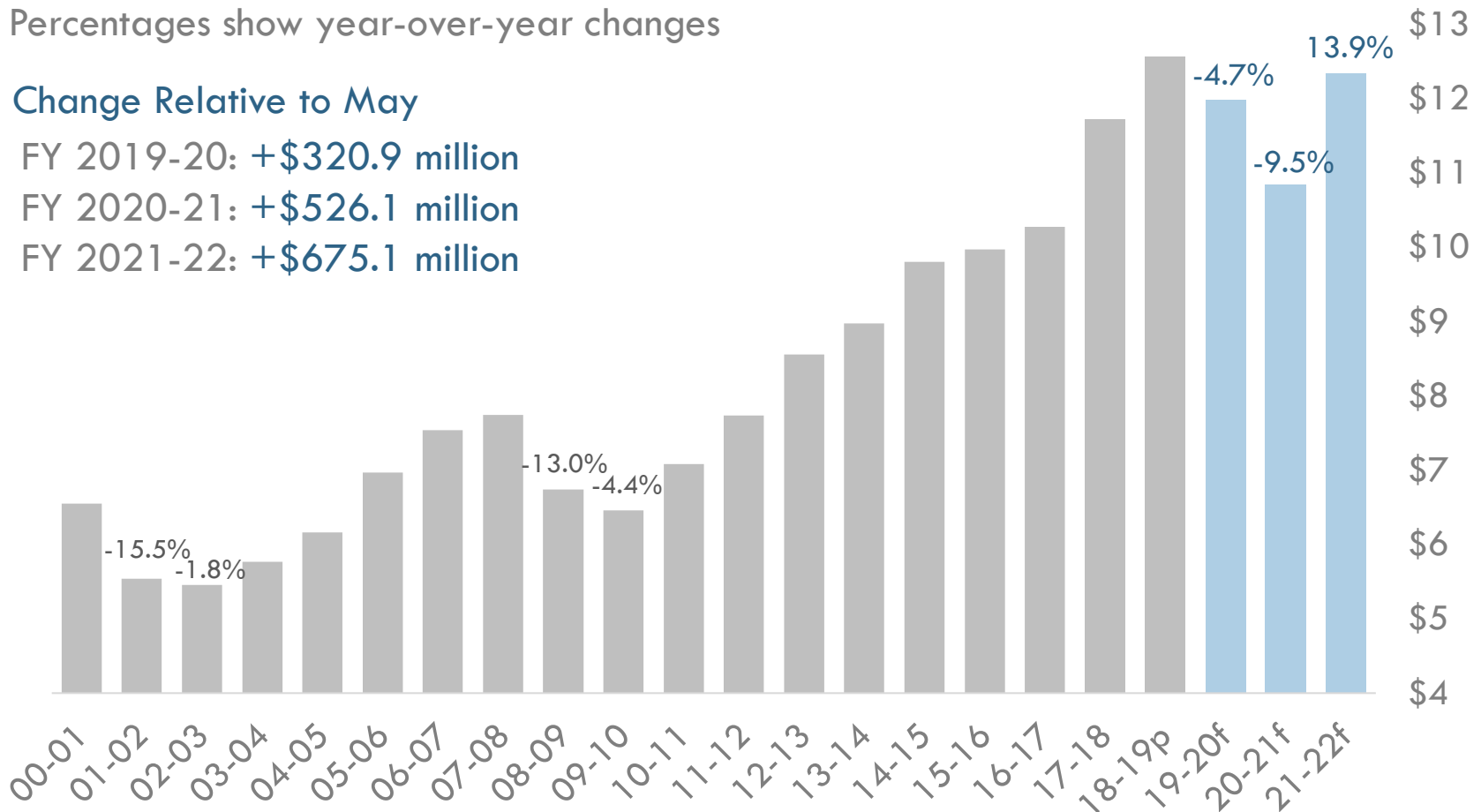
Percentages show year-over-year changes

Change Relative to May

FY 2019-20: +\$320.9 million

FY 2020-21: +\$526.1 million

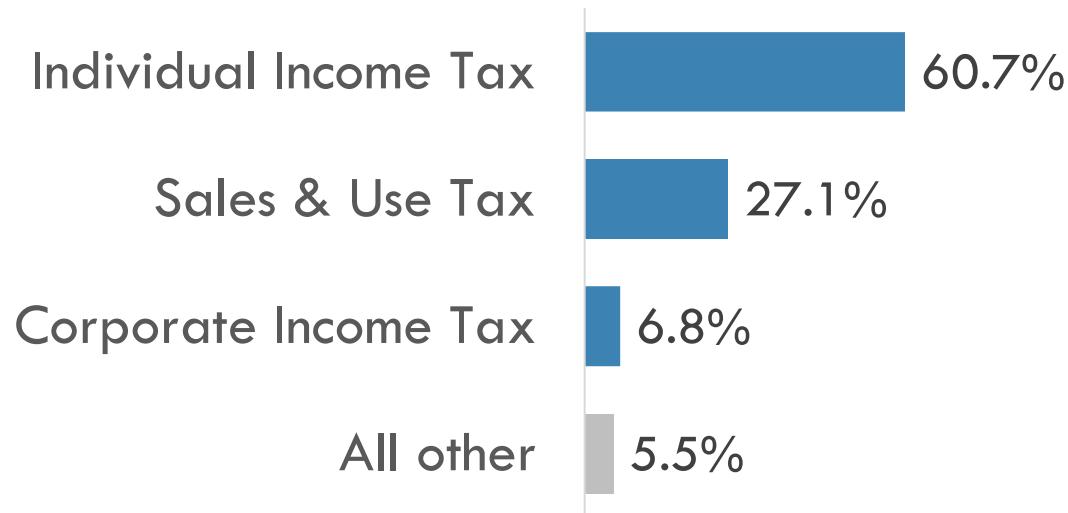
FY 2021-22: +\$675.1 million



Source: Colorado Office of the State Controller and Legislative Council Staff June 2020 forecast.

Income taxes represent the largest and most volatile General Fund revenue stream...

Share of Total General Fund Revenue*
Based on FY 2018-19 Collections



Income taxes also carry the greatest forecast risk with economic uncertainty, delayed filing deadlines, and state and federal policy changes.

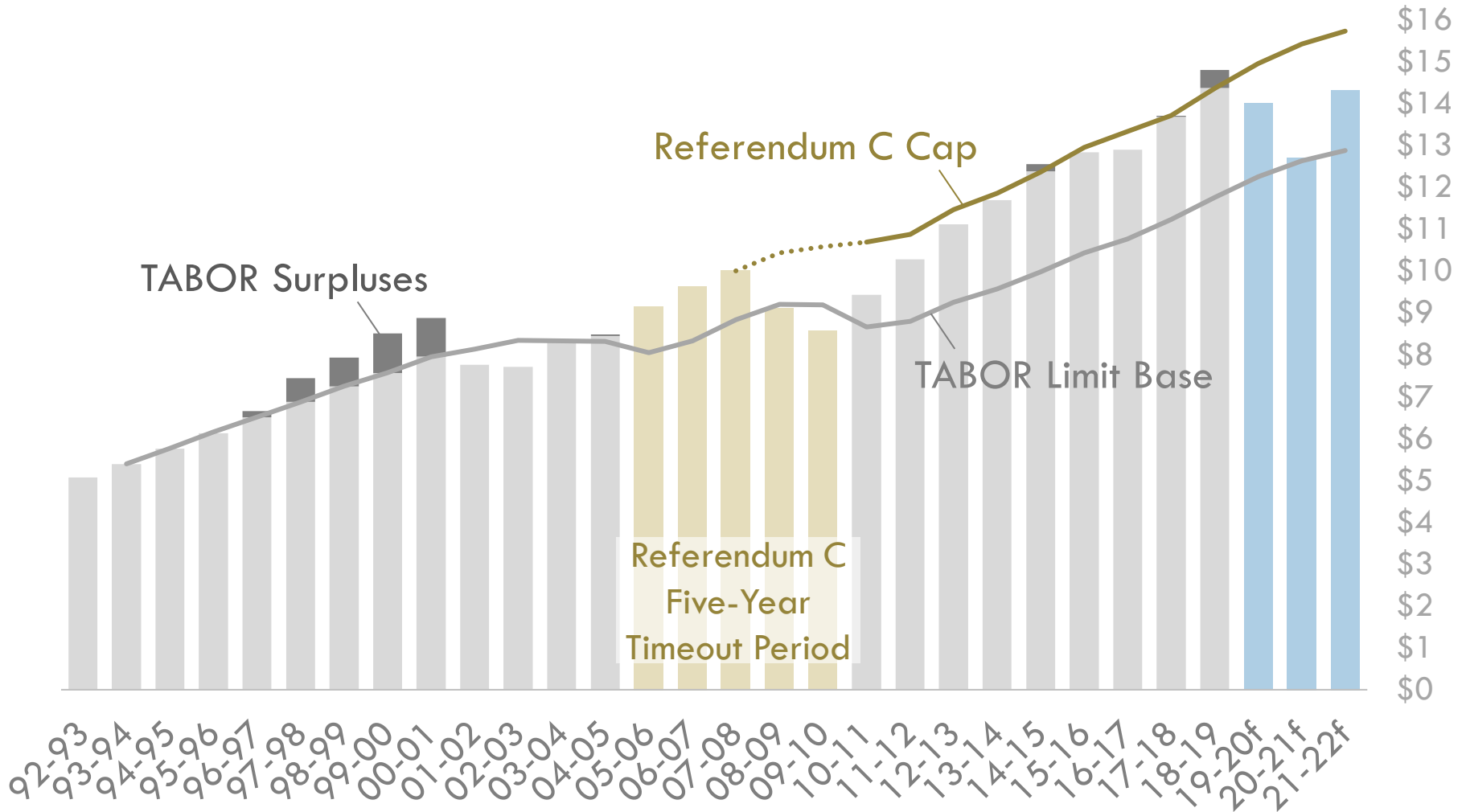
Source: Colorado Office of the State Controller of Intergovernmental Relations, FY 2018-19p.

*Income taxes net of the State Education Fund diversion.

TABOR Outlook

Revenue Subject to TABOR

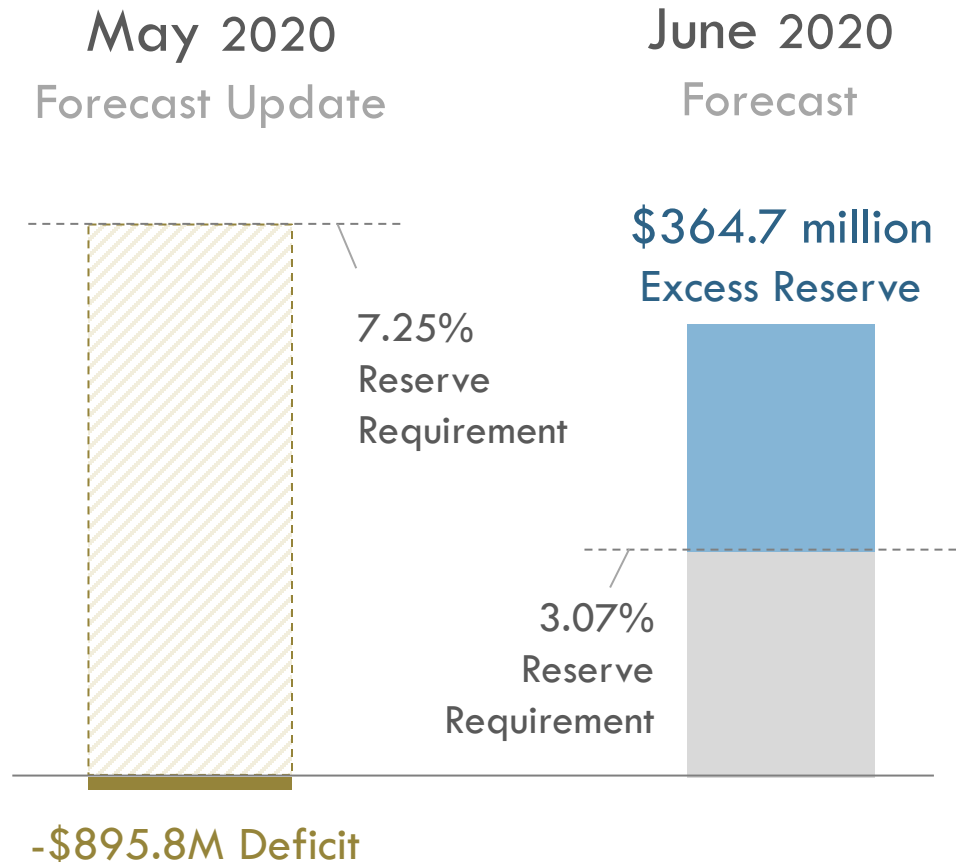
Dollars in Billions



Source: Colorado Office of the State Controller and Legislative Council Staff June 2020 forecast.

Current Year | FY 2019-20 General Fund Reserve

Dollars in Millions



Changes relative to May:

Revenue: +\$320.9M on income tax policy changes

Net transfer: +\$145.1M on legislative changes

Appropriations: -\$281.3M with budget package

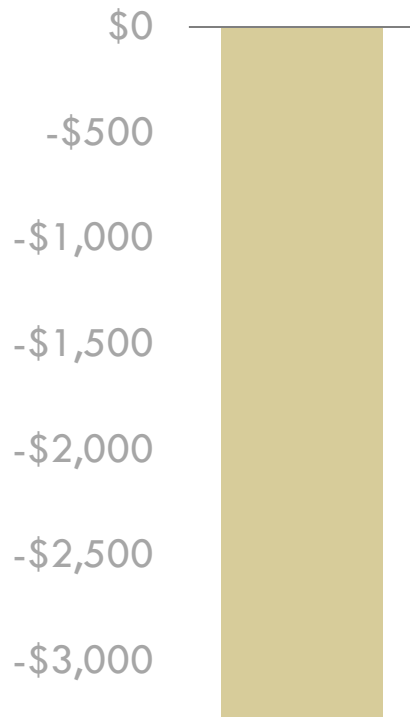
Reserve: -\$513.8M on lower reserve requirement, appropriations

Next Year | FY 2020-21 Budget Outlook

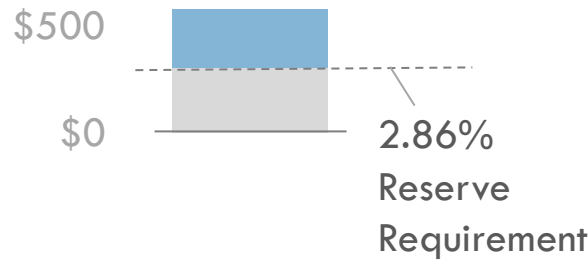
May 2020
Forecast Update

June 2020
Forecast

\$272.7 million
Excess Reserve



-\$3.3 Billion Shortfall*



Changes relative to May:

Beginning balance: +\$746.6M carried over from FY 2019-20

Revenue: +\$526.1M on income tax policy changes, slightly higher economic expectations

Appropriations: -\$1.44 billion lower than FY 2019-20 budget

Net transfers: +\$273.8 on legislative changes

Reserve: -\$571.7M on lower reserve requirement, appropriations

Source: Legislative Council Staff forecasts based on current law. *Amount holds FY 2019-20 appropriations constant and incorporates the May revenue forecast, current law transfers, rebates and expenditures, TABOR refund obligations, and the 7.25% reserve requirement.

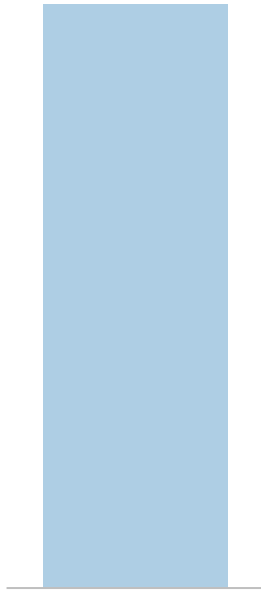
Out Year | FY 2021-22 Budget Outlook

Additional revenue available to spend or save above FY 2020-21 spending levels. Amounts hold FY 2020-21 appropriations constant and incorporate the revenue forecast, current law transfers, rebates and expenditures, and the 2.86% reserve requirement.

June 2020

Forecast

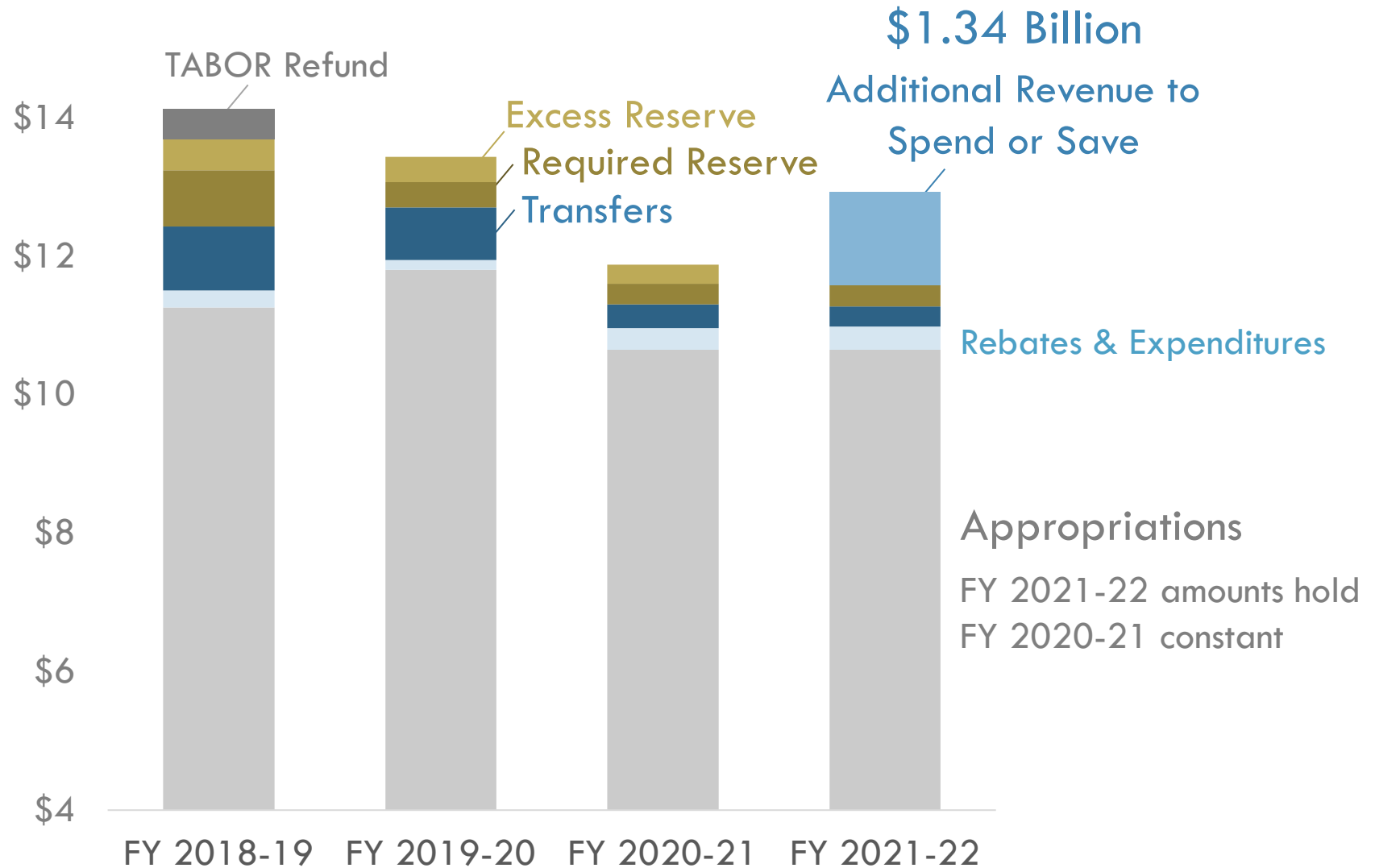
\$1.34 Billion



This amount does not account for caseload growth or inflationary pressures

General Fund Budget (Spending or Saving)

Dollars in Billions



CARES Act Funds for the COVID-19 Public Health Emergency

Distribution based on EO 2020 070	FY 2019-20	FY 2020-21
Medical and public health expenses	\$48	\$157
Public health measures related to veterans living facilities, state prisons, etc.	\$2	\$8
Caseload increases for at-risk pupils and human services programs	\$2	\$57
Emergency rental and mortgage assistance	\$10	
K-12 Education		\$510
Higher Education		\$450
Payroll for state public safety, public health, health care, human services, etc.		\$85
Local Governments*		\$275
General Fund		\$70
Totals	\$62	\$1,612

*Local governments that did not already receive disbursements.

For guidance on the use for funds, see: <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Frequently-Asked-Questions.pdf>

Risks to the Forecast

New Information

- Legislation from the 2020 Session
- 11 months of FY 2019-20 collections data
- Starting to understand how much economic activity declined and how quickly we are bouncing back

Unknowns

- Extent of economic damage and its lasting effects
- Influence of the recession on income taxes
- Containment and treatment of COVID-19
- Additional fiscal and monetary policy changes

Downside risk: Prolonged economic recovery or a double-dip recession (COVID-19 resurgence, vicious cycle)

Upside risk: Stronger near-term rebound in economic activity, less damage to the economy than expected

November Ballot Preview



What's on the ballot in November?

- **Gallagher Repeal**
 - Residential and nonresidential assessment rates statutorily required to stay at 7.15% and 29%, respectively
- **Cigarette, Tobacco & Nicotine Tax**
 - FY 2020-21: \$82.7M, FY 2021-22: \$167.6M
 - A portion funds preschool, rural schools
- **Graduated Income Tax**
 - FY 2020-21: \$1.0 billion, FY 2021-22: \$2.0 billion
 - 50% of new revenue would go to education
- **Income Tax Rate Reduction**
 - Lowers rate from 4.63% to 4.55%
 - ~\$170M reduction in General Fund revenue beginning in FY 2020-21

Colorado Economic Indicators

Calendar Years	2015	2016	2017	2018	2019	Legislative Council Staff Forecast		
						2020	2021	2022
Population (<i>Thousands, as of July 1</i>) ¹	5,450.6	5,539.2	5,611.9	5,691.3	5,758.7	5,816.3	5,862.9	5,909.8
Percent Change	1.9%	1.6%	1.3%	1.4%	1.2%	1.0%	0.8%	0.8%
Nonfarm Employment (<i>Thousands</i>) ²	2,541.2	2,601.2	2,660.2	2,727.5	2,785.8	2,660.4	2,748.2	2,819.7
Percent Change	3.2%	2.4%	2.3%	2.5%	2.1%	-4.5%	3.3%	2.6%
Unemployment Rate ²	3.9%	3.3%	2.8%	3.2%	2.8%	7.4%	6.3%	5.1%
Personal Income (<i>Millions</i>) ³	\$284,234	\$289,581	\$310,755	\$332,943	\$353,287	\$360,353	\$359,632	\$379,052
Percent Change	4.8%	1.9%	7.3%	7.1%	6.1%	2.0%	-0.2%	5.4%
Wage and Salary Income (<i>Millions</i>) ³	\$146,531	\$151,016	\$160,719	\$170,115	\$182,288	\$171,715	\$177,038	\$186,067
Percent Change	5.7%	3.1%	6.4%	5.8%	7.2%	-5.8%	3.1%	5.1%
Housing Permits (<i>Thousands</i>) ¹	31.9	39.0	40.7	42.6	38.6	37.2	39.6	39.8
Percent Change	11.1%	22.3%	4.4%	4.8%	-9.4%	-3.6%	6.2%	0.6%
Nonresidential Building (<i>Millions</i>) ⁴	\$4,990.8	\$5,989.0	\$6,156.1	\$8,096.3	\$4,898.4	\$4,741.7	\$4,049.4	\$4,134.4
Percent Change	14.7%	20.0%	2.8%	31.5%	-39.5%	-3.2%	-14.6%	2.1%
Denver-Aurora-Lakewood Inflation ⁵	1.2%	2.8%	3.4%	2.7%	1.9%	1.0%	2.0%	2.2%

Sources

¹U.S. Census Bureau. Residential housing permits are the number of new single and multi-family housing units permitted for building.

²U.S. Bureau of Labor Statistics.

³U.S. Bureau of Economic Analysis. Personal income and wages and salaries not adjusted for inflation. Forecast shown for 2019.

⁴F.W. Dodge.

⁵U.S. Bureau of Labor Statistics. Inflation shown as the year-over-year change in the consumer price index.

Note: Legislative Council Staff has discontinued the Colorado retail trade forecast due to data limitations.

National Economic Indicators

Calendar Years	2015	2016	2017	2018	2019	Legislative Council Staff Forecast		
						2020	2021	2022
Real GDP (<i>Billions</i>) ¹	\$17,403.8	\$17,688.9	\$18,108.1	\$18,638.2	\$19,073.1	\$17,985.9	\$18,399.6	\$18,988.4
Percent Change	2.9%	1.6%	2.4%	2.9%	2.3%	-5.7%	2.3%	3.2%
Nonfarm Employment (<i>Millions</i>) ²	141.8	144.3	146.6	148.9	150.9	143.8	149.0	153.3
Percent Change	2.1%	1.8%	1.6%	1.6%	1.4%	-4.7%	3.6%	2.9%
Unemployment Rate ²	5.3%	4.9%	4.3%	3.9%	3.7%	8.8%	7.1%	5.8%
Personal Income (<i>Billions</i>) ¹	\$15,717.8	\$16,121.2	\$16,878.8	\$17,819.2	\$18,608.3	\$18,850.2	\$18,680.6	\$19,689.3
Percent Change	4.8%	2.6%	4.7%	5.6%	4.4%	1.3%	-0.9%	5.4%
Wage and Salary Income (<i>Billions</i>) ¹	\$7,856.7	\$8,083.5	\$8,462.1	\$8,888.5	\$9,304.2	\$8,736.6	\$8,998.7	\$9,439.7
Percent Change	5.1%	2.9%	4.7%	5.0%	4.7%	-6.1%	3.0%	4.9%
Inflation ²	0.1%	1.3%	2.1%	2.4%	1.8%	0.7%	1.9%	2.2%

Sources

¹U.S. Bureau of Economic Analysis. Real gross domestic product (GDP) is adjusted for inflation. Personal income and wages and salaries not adjusted for inflation.

²U.S. Bureau of Labor Statistics. Inflation shown as the year-over-year change in the consumer price index for all urban areas (CPI-U).

Questions?

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