



March 2019 | Legislative Council Staff  
**Economic & Revenue Forecast**

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Colorado School Finance Project

March 22, 2019

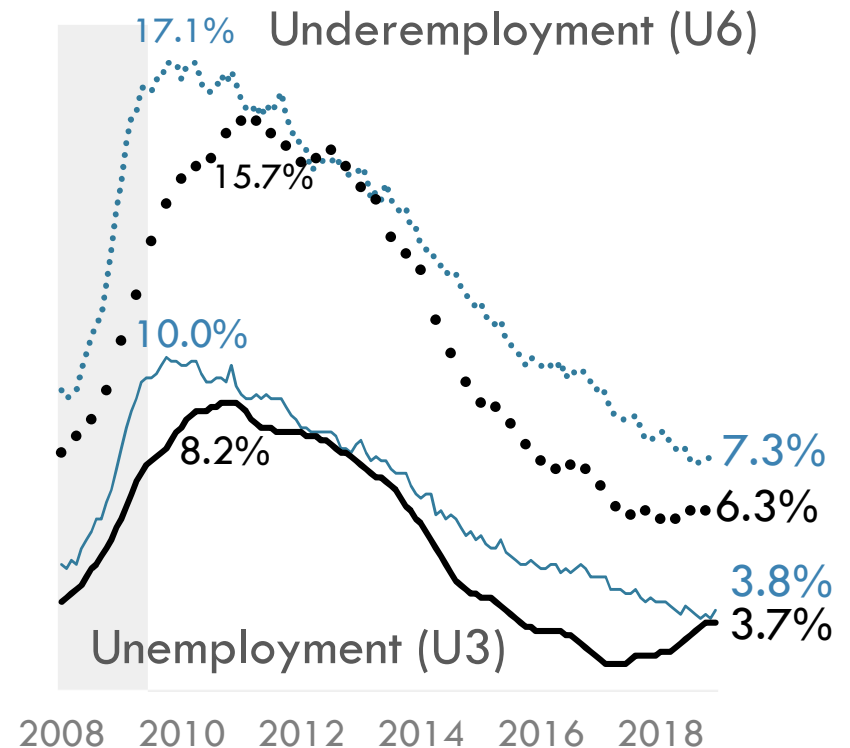
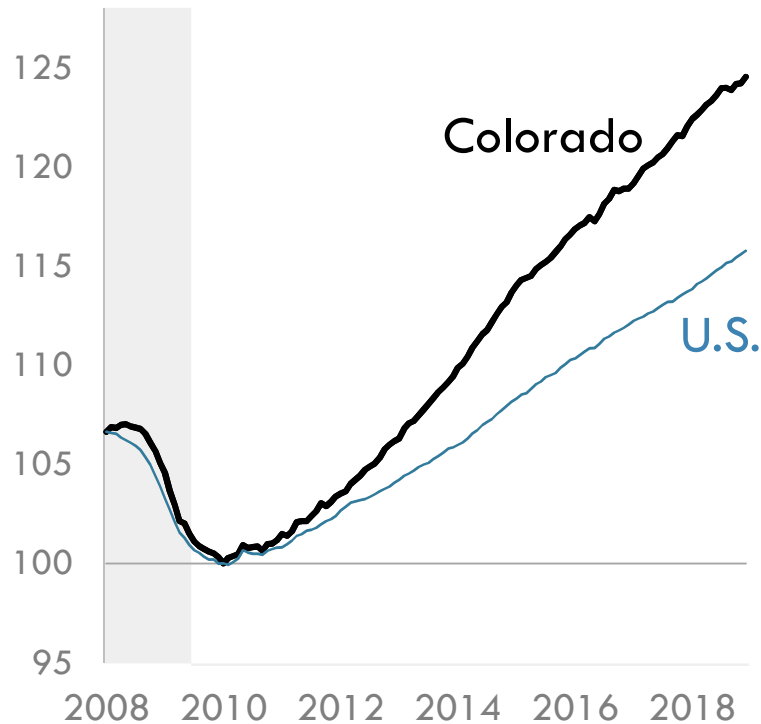
# Economic Outlook



# Employment growth is slowing as the labor market tightens

## Total Nonfarm Employment

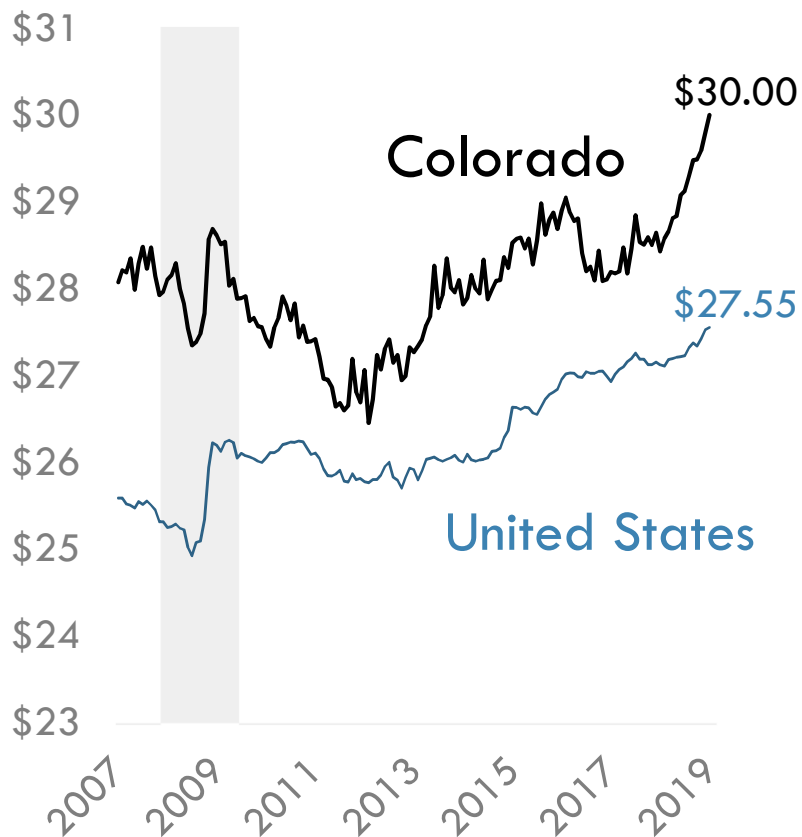
Index 100 = January 2010



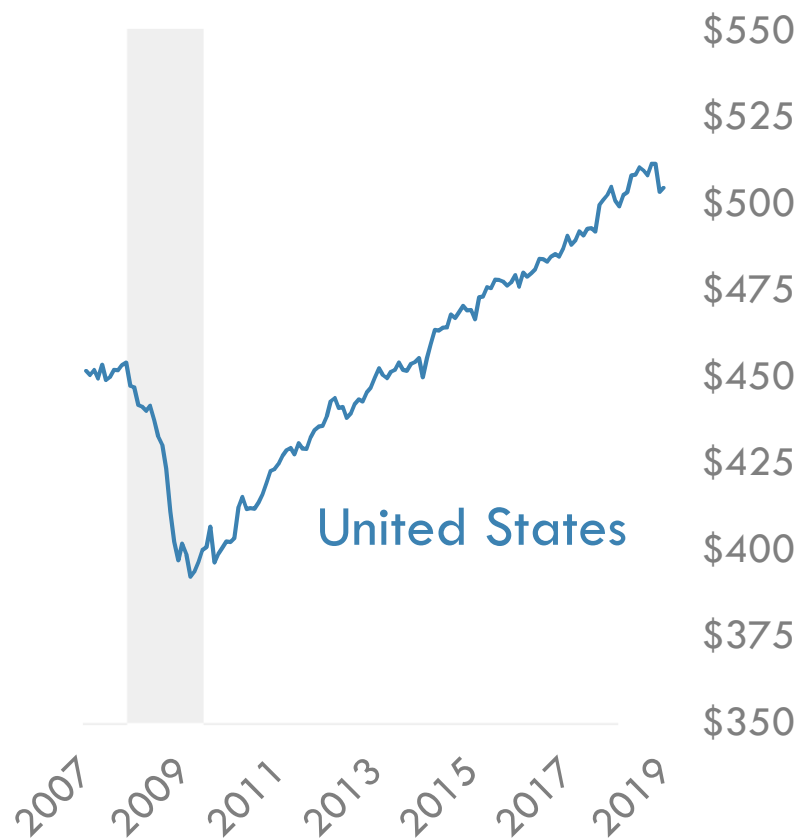
Source: U.S. Bureau of Labor Statistics. Seasonally adjusted. Data are through February for the U.S. and January for Colorado. Colorado U6 rates shown as four-month moving averages.

# Wages are rising, yet consumer activity has slowed

Real Average Hourly Earnings  
2019 Dollars



Real Retail Sales  
Billions of 2019 Dollars

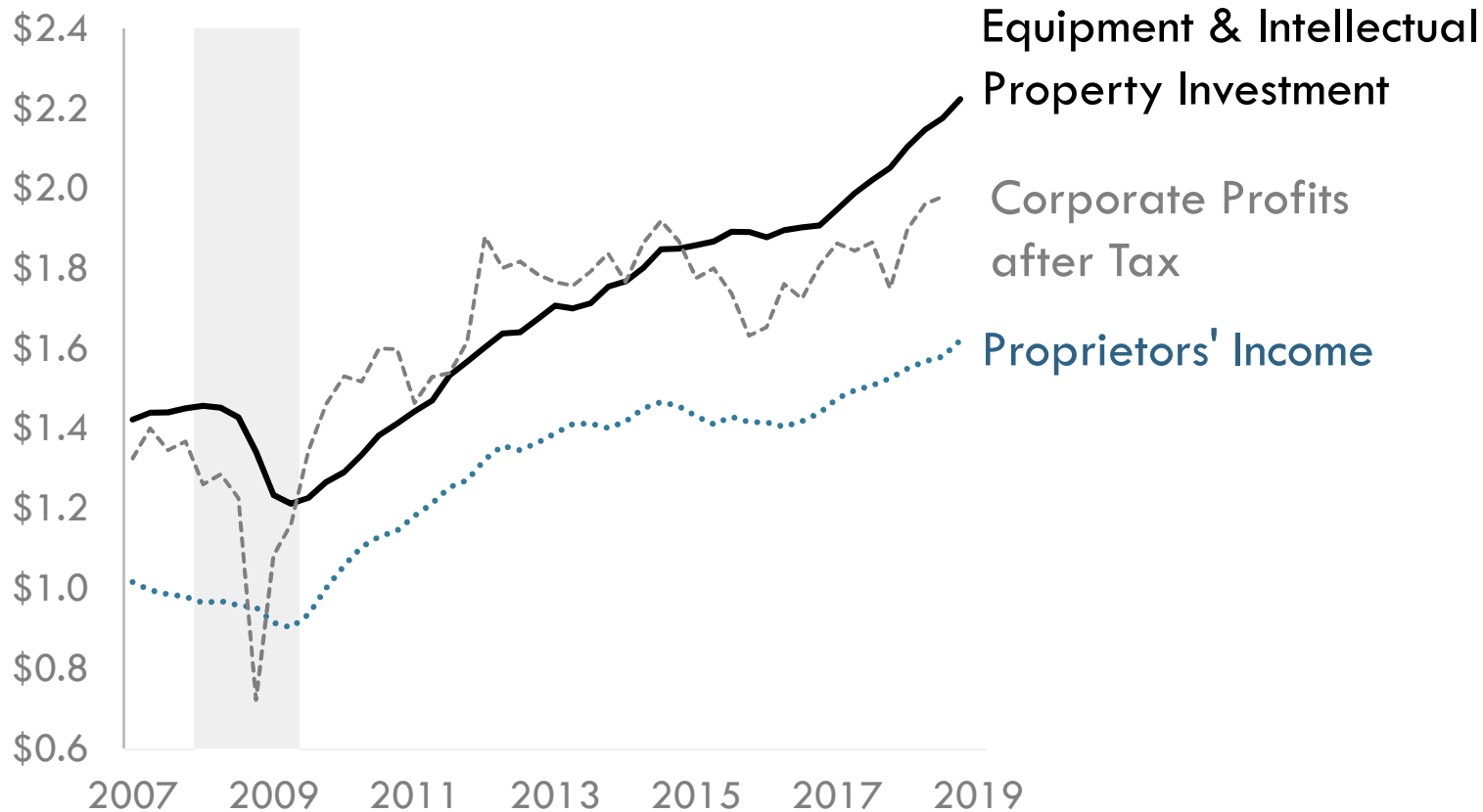


Source: U.S. Bureau of Labor Statistics and U.S. Census Bureau. Data are inflation adjusted using the CPI-U average for all U.S. cities. Data are seasonally adjusted and through January 2019.

# Business activity remains elevated, but is expected to slow on labor market shortages and rising wages

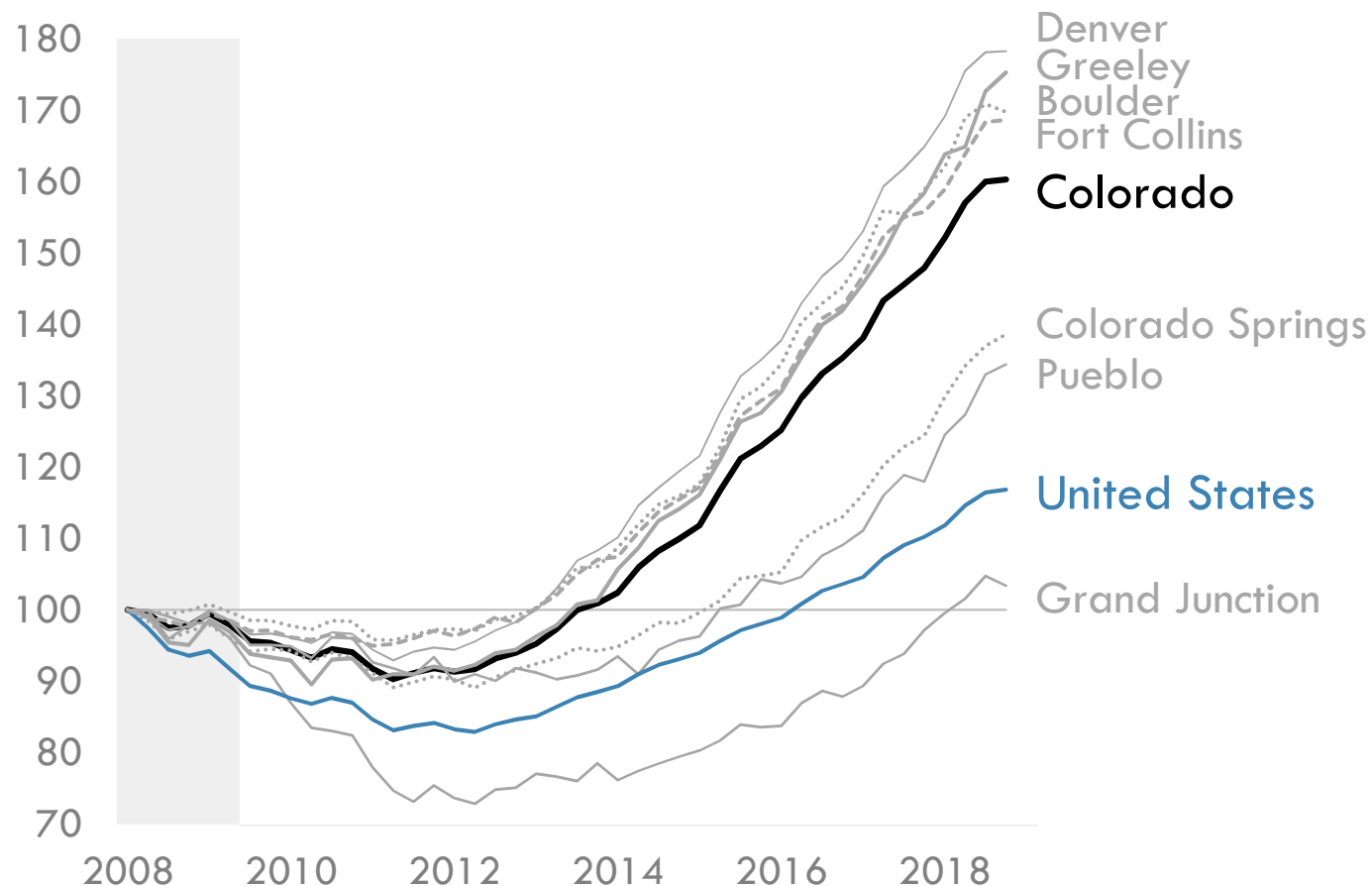
## Business Investment, Income and Profits

*Trillions of Dollars*



# Home price appreciation has slowed considerably in the higher-cost areas of the state

FHFA Home Price Indices  
*Index 100 = January 2008*



Source: Federal Housing Finance Agency (FHFA). FHFA data are seasonally adjusted data through 2018Q4.

# The value of oil and gas production remains low

West Texas Intermediate  
Crude Oil Price

*Dollars per Barrel*



U.S. Crude Oil Production

*Millions of Barrels per Month*



# Economic Outlook Summary

## Growth will continue to moderate through 2021

- Weaker than expected growth over the past 4 months
- Labor market shortages will dampen business activity
- Global economic slowdown will mute demand and put downward pressure on commodity prices

## Uncertainties remain elevated

- Shift toward more cautious optimism among investors and consumers

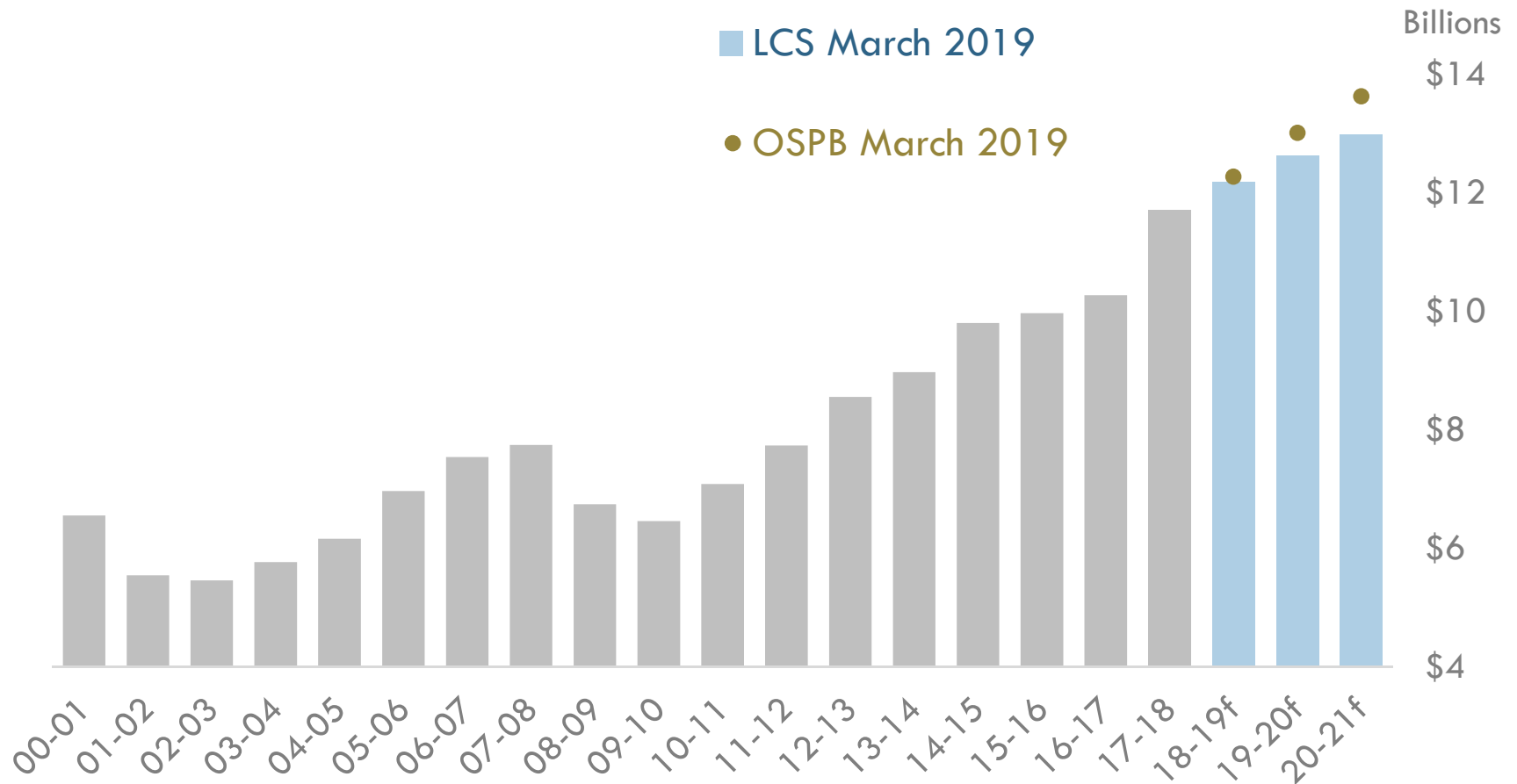


# General Fund Budget Outlook



# Revenue expectations were reduced on lower than expected collections to date and a slower economic outlook

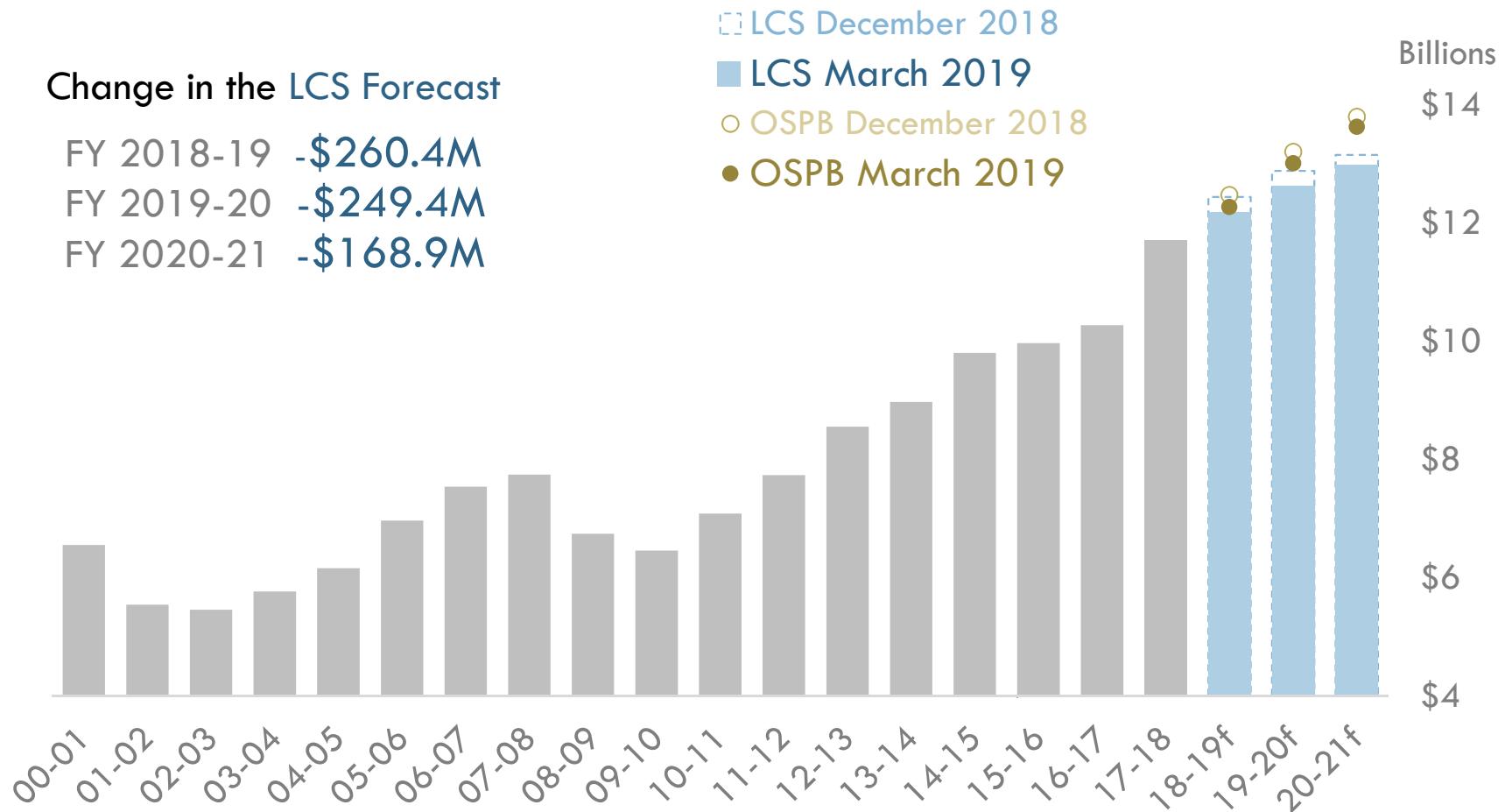
## Gross General Fund Revenue



Source: Colorado Office of the State Controller and Legislative Council Staff (LCS) and Office of State Planning and Budgeting (OSPB) forecasts.

# Revenue expectations were reduced on lower than expected collections to date and a slower economic outlook

## Gross General Fund Revenue

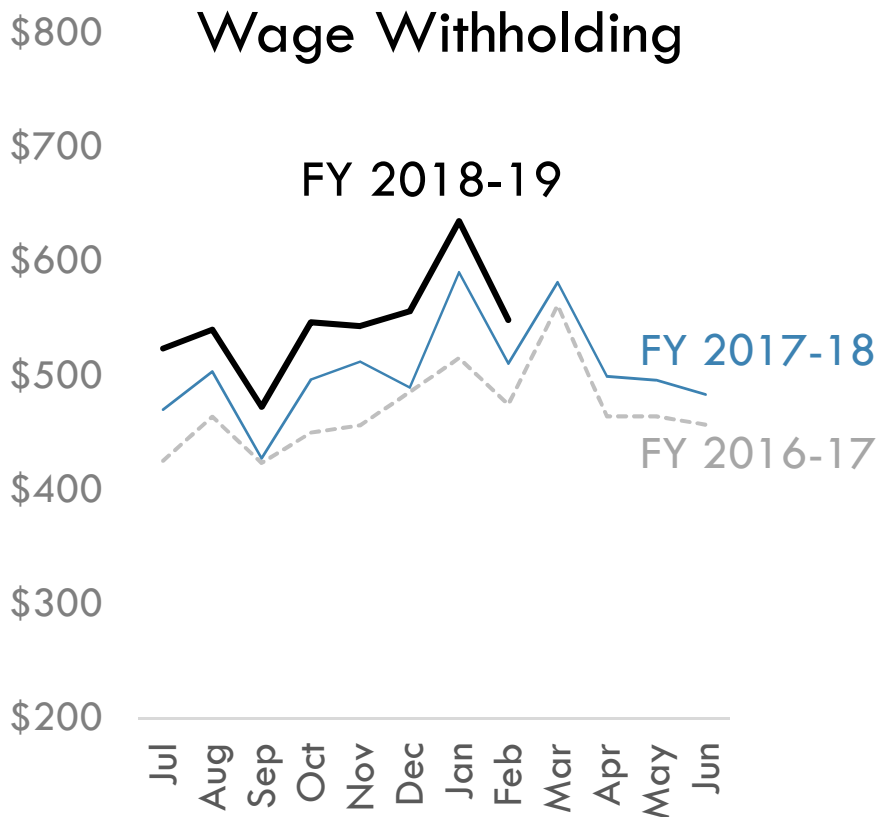


Source: Colorado Office of the State Controller and Legislative Council Staff (LCS) and Office of State Planning and Budgeting (OSPb) forecasts.

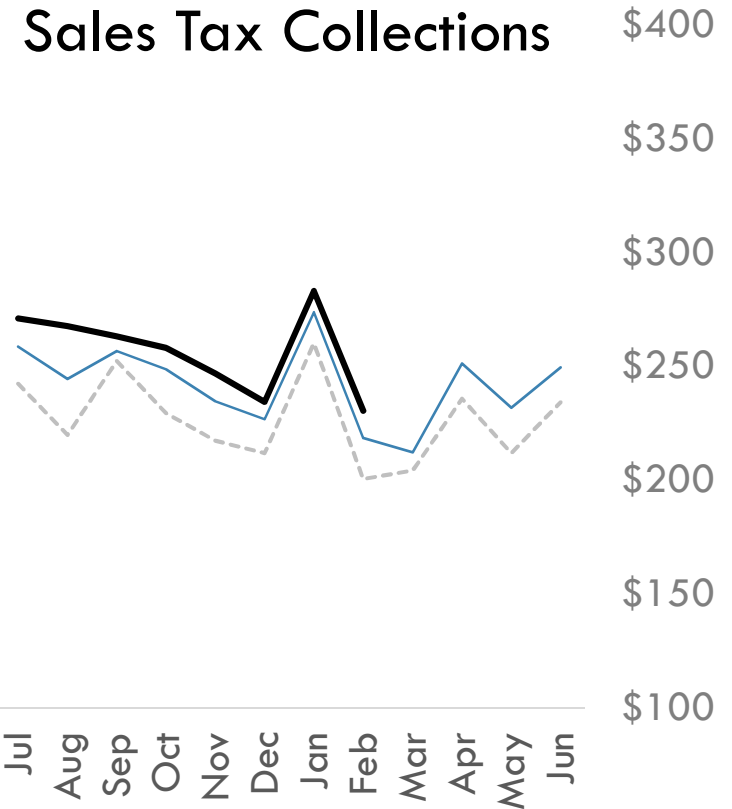
# Growth in wage withholding remains strong, while sales tax collections growth has slowed

## Monthly State Revenue Collections

Millions



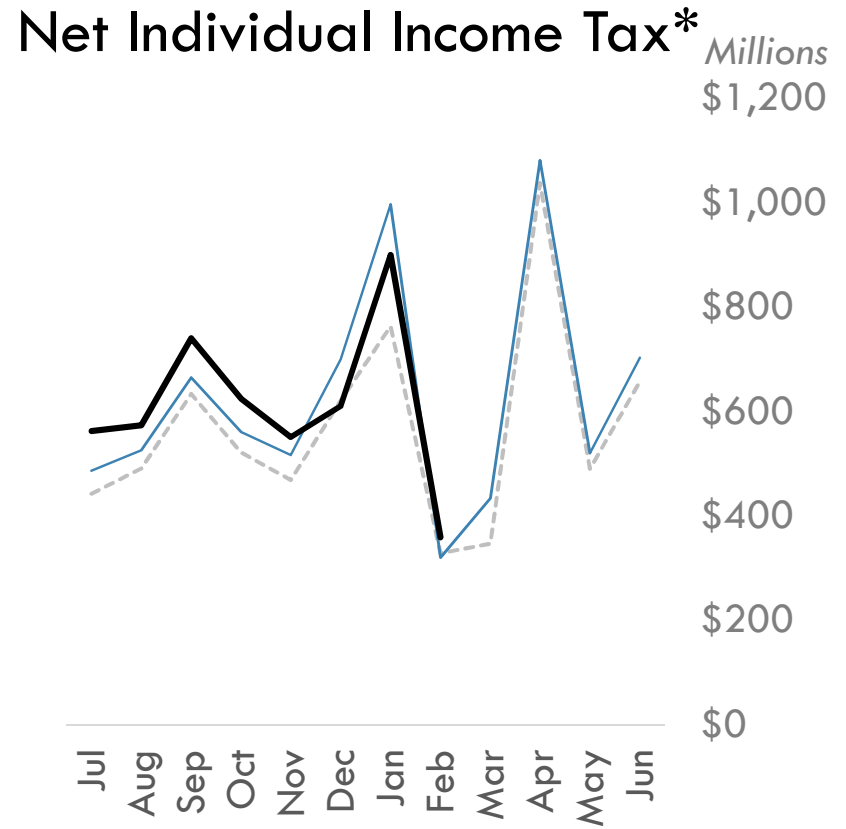
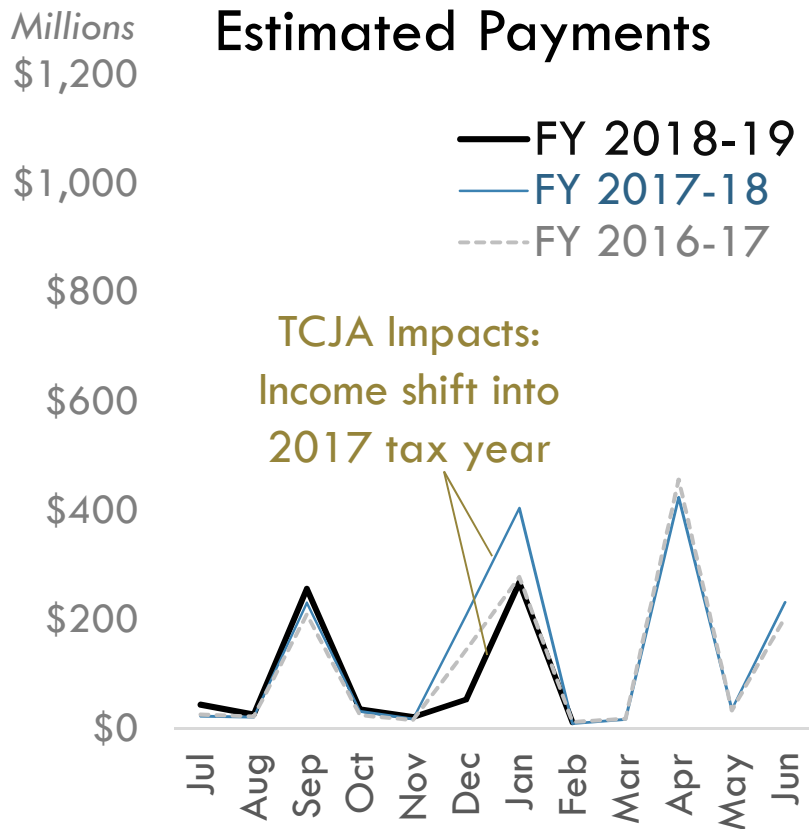
Millions



Source: Colorado Office of the State Controller and Department of Revenue. Monthly collections shown on a cash basis. February data are preliminary.

# Estimated payments of individual income tax are the largest source of General Fund forecast volatility

## Monthly State Revenue Collections



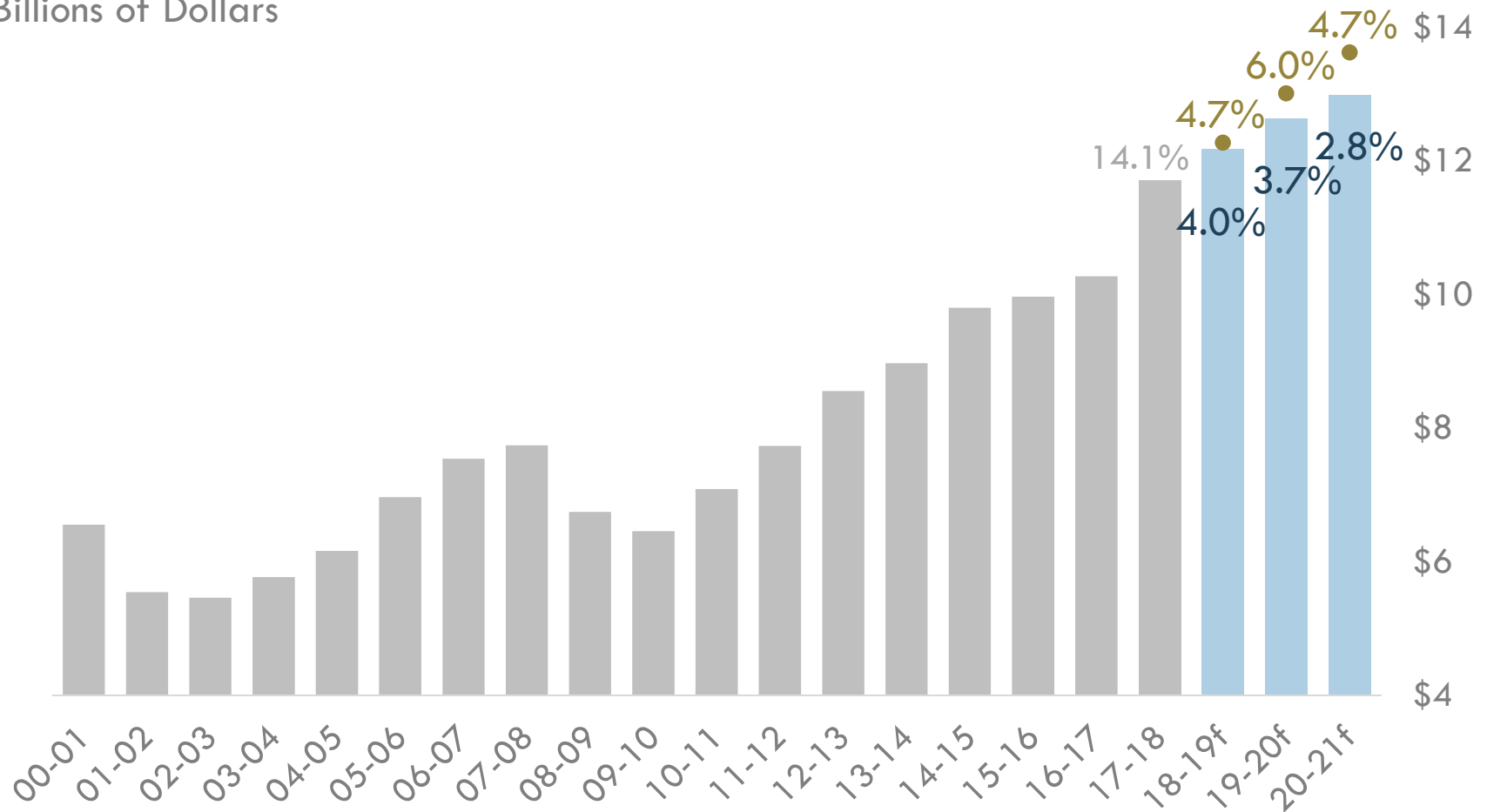
Source: Colorado Office of the State Controller and Department of Revenue. Monthly collections shown on a cash basis. February data are preliminary.

\*Wage withholding, estimated payments, and cash with returns, minus refunds.

# Revenue growth is expected to moderate throughout the forecast period

Gross General Fund Revenue  
Billions of Dollars

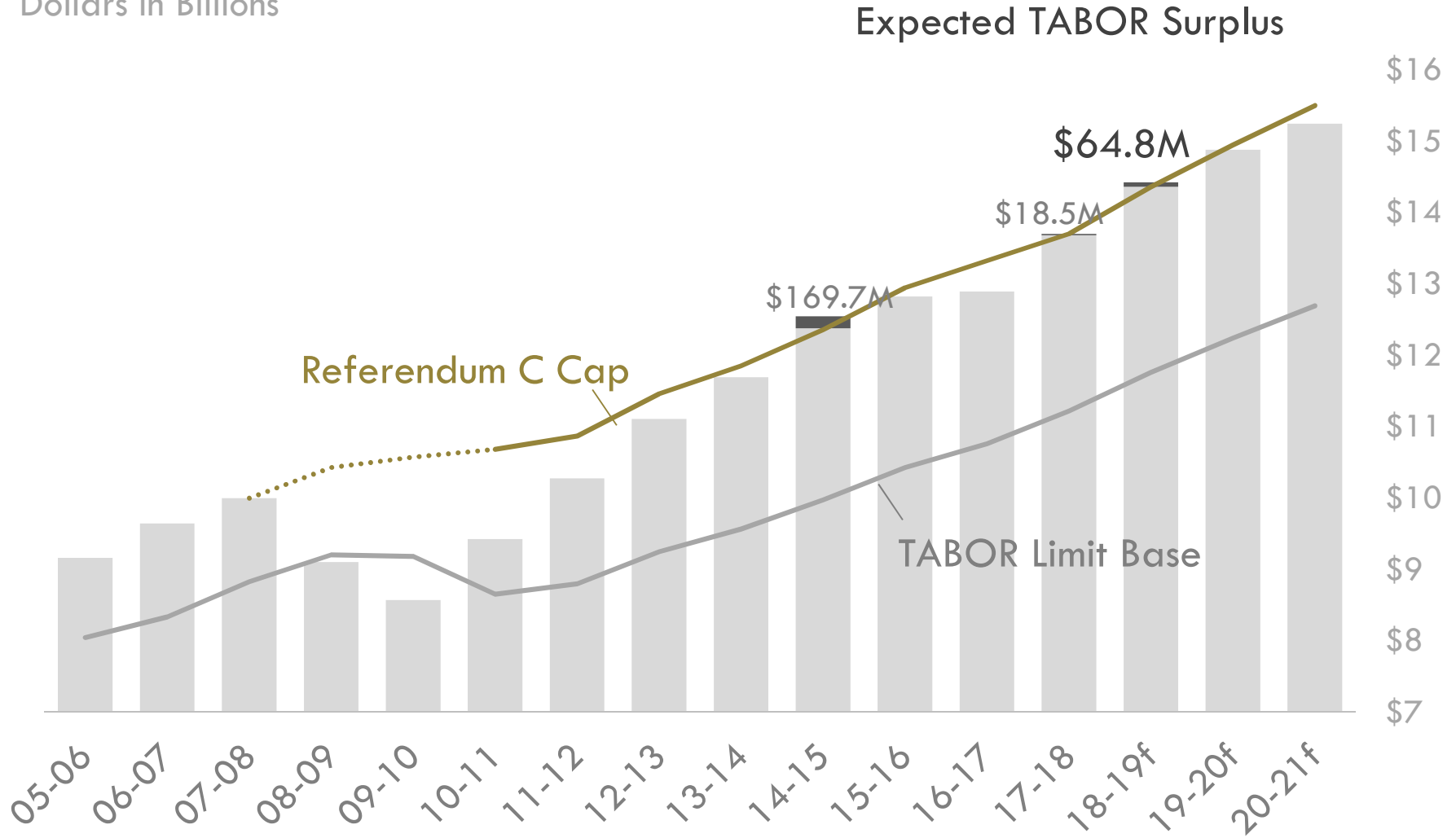
Year-over-year growth \$16



# TABOR Outlook

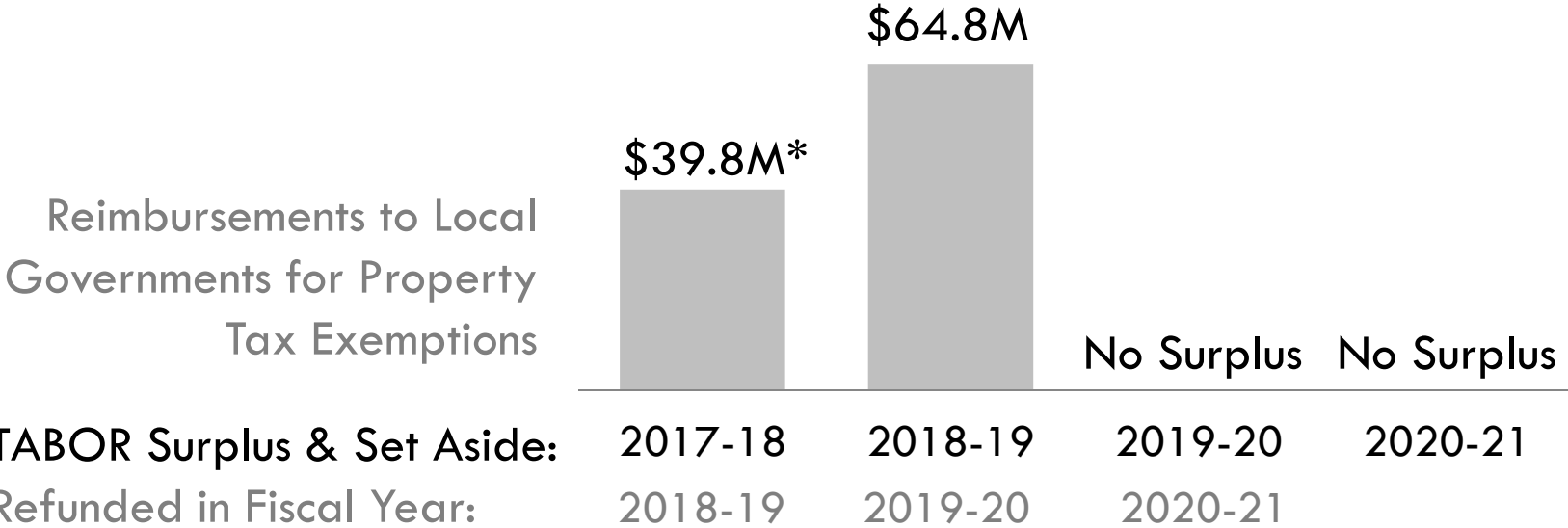
Revenue Subject to TABOR

Dollars in Billions



Source: Colorado Office of the State Controller and Legislative Council Staff March 2019 forecasts.

# Expected TABOR Refunds & General Fund Budget Impacts

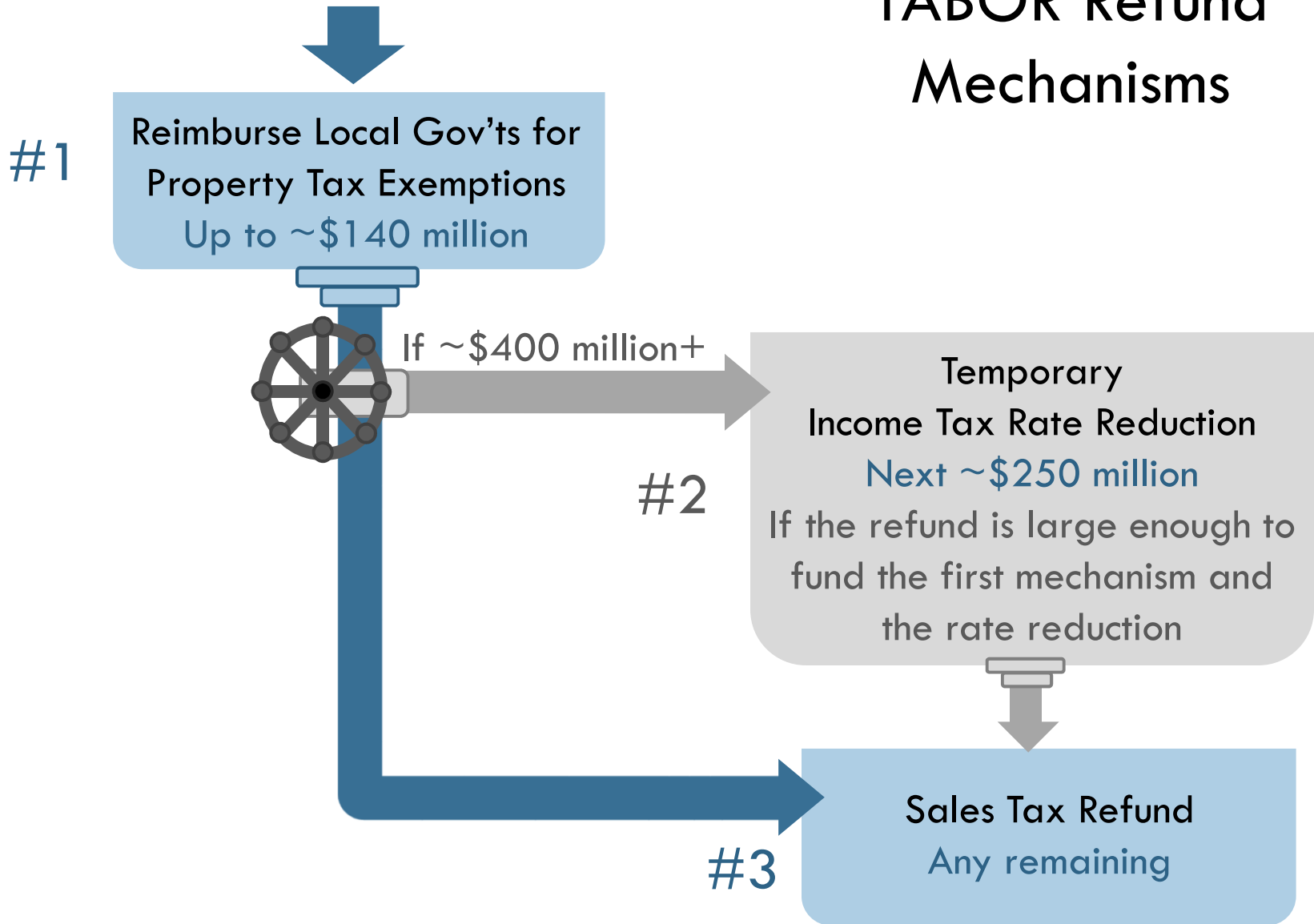


Source: Colorado Office of the State Controller and Legislative Council Staff March 2019 forecast.

\*This amount includes the \$18.5 million FY 2017-18 surplus and \$21.3 million in under-refunds from the FY 2014-15 surplus.



# TABOR Refund Obligation



# TABOR Refund Mechanisms

# Changes to the Budget Bottom Line

**FY 2018-19: \$76M more** in the excess reserve

- Relative to December, \$19.3M less spending, less in TABOR refunds (due to lower cash funds)
- \$372.7 million excess reserve

**FY 2019-20: \$158M less** than expected in December due to lower revenue expectations

- Instead of the Referendum C cap, revenue limiting spending

# Risks to the Forecast

- **Elevated uncertainty in FY 2018-19 and FY 2019-20**
  - Expect surprises as taxpayers adjust to federal tax policy changes
  - Out-of-state sales tax collections pose upside risks
- **With close proximity to the Referendum C cap...**
  - Upside surprises mean (larger) TABOR refunds
  - Downside surprises mean fewer funds available
- **Longer-term risks are skewed to the downside**
  - Slower growth and rising risk of recession as the economic expansion matures

# Questions?

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