Economic Outlook
Positive, but slower, economic growth anticipated through forecast period

Real U.S. Gross Domestic Product

$\text{Dollars in Trillions}$


Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.
Nation’s inflationary pressures continue, forecast to average 8.1 percent in 2022 and 4.6 percent in 2023

U.S. City Average CPI-U Inflation

Year-over-Year Change in Prices

-3%  -2%  -1%  0%  1%  2%  3%  4%  5%  6%  7%  8%  9%

November 2022

7.1% Headline*

6.0% Core**

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.
Energy and transportation prices easing, housing continues to exert upward pressure

U.S. CPI-U, Selected Components, November 2022

Year-over-Year Change in Prices

Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year.
Smaller rate increases ahead, with higher terminal peak

Effective Federal Funds Rate

Source: Board of Governors of the Federal Reserve System, H.15 Selected Interest Rates

December 14, 2022
4.33%
Home prices falling nationally, Denver homes down 4.5% from peak

Case-Shiller Home Price Indices
*Index 100 = July 2012*

Source: S&P Dow Jones Indices, LLC. Data are seasonally adjusted and through September 2022.
Colorado’s unemployment rate ticked down to 3.5 percent in November

Unemployment rates

Majority of sectors have recovered jobs lost in the recession

-6.0  -4.7  -4.6  -4.5  -1.3  -0.3
Below Pre-pandemic Levels

0.5  1.3  2.0  3.3  3.9  4.2  4.3  5.2  6.1
Above Pre-pandemic Levels

-12 -8 -4 0 4 8 12 16 20 24 28 32 36 40
Thousands of Jobs

Mining & Logging
State Government
Accommodation & Food Services
Local Government
Real Estate
Federal Government
Information
Finance & Insurance
Educational Services
Wholesale Trade
Arts, Entertainment & Recreation
Management of Companies & Enterprises
Manufacturing
Health Care & Social Assistance
Retail Trade
Administrative & Support Services
Other Services
Construction
Transportation & Utilities
Professional, Scientific & Technical Services

Competition for workers remains high with job openings well above pre-pandemic levels

Job Openings

Index 100 = February 2020

Colorado

U.S.

Colorado’s wage gains outperforming the nation

Nominal wage growth

Source: Federal Reserve Bank of Atlanta. Data are 12-month moving averages of median wage growth, hourly data.
Excess savings from pandemic-related programs spent down quickly

Personal Savings Rate

Historical Average

Source: U.S. Bureau of Economic Analysis.
*The personal savings rate is calculated as the ratio of personal saving as a percentage of disposable personal income. Data are shown as seasonally adjusted annual rates.
Risks to the forecast remain weighted to the downside

• Risks to the forecast remain elevated amid rapid monetary tightening, a housing market correction, and declining household balance sheets

• **Downside:** inflation and more aggressive monetary policy response, steeper housing market correction, geopolitical uncertainty and trade disruptions

• **Upside:** sustained drop in energy prices and faster resolution to inflationary pressures, resolution to war in Ukraine, and stabilized supply chains

• Risk of near-term recession remains elevated but the forecast anticipates a continued, yet slowing expansion
Supplemental Economic Outlook Slides
Workers ages 25 to 54 lead labor force recovery, followed by teens

U.S. Labor Force by Age

Index 0.0 = January 2020

Source: U.S. Bureau of Labor Statistics with Legislative Council Staff calculations. Data are seasonally adjusted and through November 2022.
U.S. wage growth varies by wage quartile

12 month moving averages of monthly median wage growth, lowest 25 percent (1st quartile) to highest 25 percent (4th quartile)

Energy market dynamics

Crude Oil Production
*Millions of Barrels per Month*

Crude Oil Price, West Texas Intermediate
*Dollars per Barrel*

Source: U.S. Energy Information Administration. Data are shown as three-month moving averages and are not seasonally adjusted. Data are through August 2022.

General Fund Budget Outlook
Adjustments for ballot measures

• **Proposition 121 — Income Tax Rate Cut**
  – -$670M for FY 2022-23 (1.5 year impact)
  – -$440M for FY 2023-24, FY 2024-25
  – No impact on discretionary budget (reduces TABOR obligation)

• **Proposition 123 — Affordable Housing**
  – Diverts revenue from GF and exempts from TABOR
  – $150M in FY 2022-23 (0.5 year impact), $300M thereafter
  – No impact on discretionary budget (reduces TABOR obligation)

• **Proposition FF — Healthy School Meals**
  – Raises income tax revenue, exempts from TABOR, earmarks
  – $50M in FY 2022-23 (0.5 year impact), $100M thereafter
  – No impact on discretionary budget (rebates and expenditures)

• **Small adjustments for Amendment E, Proposition 125**
Revenue decrease expected in FY 2022-23 after accounting for ballot measures

Gross General Fund Revenue
Billions of Dollars
Percentages show year-over-year changes

Change Relative to September 2022
FY 2021-22: -$1.08 billion
FY 2022-23: -$707 million
FY 2023-24: -$559 million

Source: Colorado Office of the State Controller and Legislative Council Staff December 2022 forecast.
TABOR Outlook

Revenue Subject to TABOR

Billions of Dollars

Revenue Above the Ref C Cap

- FY 2021-22 (still preliminary): $3.73 billion
- FY 2022-23: $2.47 billion
- FY 2023-24: $1.53 billion
- FY 2024-25: $1.37 billion

CY 2022 inflation affects
FY 2023-24 limits

Source: Office of the State Controller, Office of the State Auditor, and Legislative Council Staff December 2022 forecast.
Outlook for TABOR refunds has shifted with Prop 121

Expected TABOR Mechanism Amounts

Millions of Dollars

**Six-Tier Sales Tax Mechanism**

- FY 2021-22 includes $121.1 million in underrefunds of prior surpluses
- Does not include $22.0 million Prop EE obligation under TABOR (3)
- FY 2022-23 includes $153.2 million in expected underrefunds of FY 2021-22 surplus

**SB 22-233 Direct Payments**
- $750 for individuals
- $1,500 for joint filers

**Property Tax Refunds**

- $161.3
- $399.7
- $170.0
- $179.1

**TABOR Surplus & Set Aside:**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2021-22</th>
<th>2022-23</th>
<th>2023-24</th>
<th>2024-25</th>
<th>2025-26</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set Aside</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refunded</td>
<td>2022-23</td>
<td>2023-24</td>
<td>2024-25</td>
<td>2025-26</td>
<td></td>
</tr>
</tbody>
</table>

Source: Legislative Council Staff December 2022 forecast.
TABOR Refunds are refunded from General Funds

In a TABOR surplus situation...

General Fund dollars in = General Fund dollars out
TABOR Refunds are refunded from General Funds

In a TABOR surplus situation...

Cash Fund dollars in = General Fund dollars out
Current Year | FY 2022-23 General Fund Reserve

Changes since the September 2022 forecast:

- $57.2 million higher beginning balance (+)
- Net transfers from the GF decreased by $101.8 million (+)
- Revenue and TABOR refund expectations both decreased; on net, $84.4 million less in TABOR refund obligation (+)
- $48.5 million more in statutory rebates and expenditures (-)

Source: Legislative Council Staff forecasts based on current law.
**Scenario A:** Additional revenue available to spend or save above FY 2022-23 spending levels. Amounts hold FY 2022-23 appropriations constant and incorporate the revenue forecast, current law transfers, rebates and expenditures, and the 15% reserve requirement.

**Scenario B Assumptions**

- **Increased reserve requirement:** $148 million
- **Transfers to other cash funds:** $164 million
- **Capital construction transfers:** $283 million
- **Placeholders** total $128 million
- **Proposed budget increases** appropriations by $858 million
- **FY 2022-23 Mid-Year Adjustments** increase beginning balance by $202 million

Source: Legislative Council Staff December 2022 forecast and JBC Staff analysis of Governor’s November 1, 2022, budget proposal. See Table 2 for additional discussion.
Risks to the Forecast

Elevated recession risk

• Global economy deteriorating
• Aggressive Fed tightening risks triggering recession
• Other economic risks from supply chains, housing market, Ukraine, COVID-19

Risks to the budget outlook

• Revenue will be constrained by the Referendum C cap through the forecast period
• Immediate risks to the budget are on the expenditures side
• Less TABOR refund cushion to absorb forecast error; a recession would likely constrain revenue available for the budget
• Higher (or lower) cash funds revenue subject to TABOR means more (or less) budget pressure
K-12 Enrollment Forecast
# K-12 Public School Enrollment

*Full-Time Equivalent (FTE) Students*

<table>
<thead>
<tr>
<th>Region</th>
<th>Actual 2022-23</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colorado Springs</td>
<td>122,718</td>
<td>0.1%</td>
</tr>
<tr>
<td>Eastern Plains</td>
<td>25,076</td>
<td>0.0%</td>
</tr>
<tr>
<td>Metro Denver</td>
<td>472,401</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Mountain</td>
<td>24,516</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Northern</td>
<td>92,359</td>
<td>0.6%</td>
</tr>
<tr>
<td>Pueblo</td>
<td>32,096</td>
<td>0.3%</td>
</tr>
<tr>
<td>San Luis Valley</td>
<td>6,957</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Southwest Mountain</td>
<td>13,345</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Western</td>
<td>49,616</td>
<td>-1.0%</td>
</tr>
<tr>
<td><strong>Statewide Total</strong></td>
<td><strong>839,082</strong></td>
<td><strong>-0.5%</strong></td>
</tr>
</tbody>
</table>

**Decline in 2022-23 Enrollment:**

- **-4,182 FTE**

*less than forecast last year*

Source: Colorado Department of Education October count.
<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Brick &amp; Mortar</th>
<th>Online</th>
<th>CSI</th>
<th>Kindergarten</th>
<th>1st – 12th</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-0.5%</td>
<td>-0.4%</td>
<td>-1.5%</td>
<td>-1.8%</td>
<td>-3.8%</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

Source: Colorado Department of Education October count.
# K-12 Public School Enrollment

*Full-Time Equivalent (FTE) Students*

<table>
<thead>
<tr>
<th>Region</th>
<th>Actual 2022-23</th>
<th>Percent Change</th>
<th>Estimated 2023-24</th>
<th>Percent Change</th>
<th>Estimated 2024-25</th>
<th>Percent Change</th>
<th>Estimated 2025</th>
<th>Percent Change</th>
<th>Average Growth*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colorado Springs</td>
<td>122,718</td>
<td>0.1%</td>
<td>123,301</td>
<td>0.5%</td>
<td>123,833</td>
<td>0.4%</td>
<td>124,333</td>
<td>0.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Eastern Plains</td>
<td>25,076</td>
<td>0.0%</td>
<td>25,257</td>
<td>0.7%</td>
<td>25,293</td>
<td>0.1%</td>
<td>25,377</td>
<td>0.4%</td>
<td>0.4%</td>
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<tr>
<td>Metro Denver</td>
<td>472,401</td>
<td>-0.9%</td>
<td>468,459</td>
<td>-0.8%</td>
<td>465,830</td>
<td>-0.6%</td>
<td>463,190</td>
<td>-0.7%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Mountain</td>
<td>24,516</td>
<td>-0.3%</td>
<td>24,499</td>
<td>-0.1%</td>
<td>24,364</td>
<td>-0.6%</td>
<td>24,234</td>
<td>-0.3%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Northern</td>
<td>92,359</td>
<td>0.6%</td>
<td>93,500</td>
<td>1.2%</td>
<td>94,405</td>
<td>1.0%</td>
<td>95,283</td>
<td>1.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Pueblo</td>
<td>32,096</td>
<td>0.3%</td>
<td>31,880</td>
<td>-0.7%</td>
<td>31,612</td>
<td>-0.8%</td>
<td>31,350</td>
<td>-0.8%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>San Luis Valley</td>
<td>6,957</td>
<td>-1.2%</td>
<td>6,967</td>
<td>0.1%</td>
<td>6,948</td>
<td>-0.3%</td>
<td>6,922</td>
<td>-0.1%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Southwest Mountain</td>
<td>13,345</td>
<td>-2.1%</td>
<td>13,333</td>
<td>-0.1%</td>
<td>13,313</td>
<td>-0.2%</td>
<td>13,292</td>
<td>-0.1%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Western</td>
<td>49,616</td>
<td>-1.0%</td>
<td>49,605</td>
<td>0.0%</td>
<td>49,574</td>
<td>-0.1%</td>
<td>49,544</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Statewide Total</strong></td>
<td><strong>839,082</strong></td>
<td><strong>-0.5%</strong></td>
<td><strong>836,800</strong></td>
<td><strong>-0.3%</strong></td>
<td><strong>835,172</strong></td>
<td><strong>-0.2%</strong></td>
<td><strong>834,561</strong></td>
<td><strong>-0.2%</strong></td>
<td><strong>-0.2%</strong></td>
</tr>
</tbody>
</table>

Source: Colorado Department of Education and Legislative Council Staff December 2022 forecast.
## Projected Change in 2023-24 Enrollment
### Year-over-Year

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Brick &amp; Mortar</th>
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<th>CSI</th>
<th>Kindergarten</th>
<th>1st – 12th</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kindergarten</td>
<td></td>
<td></td>
<td>800</td>
<td>(192)</td>
<td>(257)</td>
<td>(2,024)</td>
</tr>
<tr>
<td>1st – 12th</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2,282)</td>
<td>(2,890)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3,000)</td>
<td></td>
<td>(500)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

Source: Legislative Council Staff December 2022 forecast.
Extended High School Enrollment

- **2021-22 Actual**: 500
- **2022-23 Actual**: 754
- **2023-24 Projected**: 1,025
- **2024-25 Projected**: 1,290

**Notes:**
- ASCENT program uncapped
- First year of TREP program
- Cap on ASCENT slots
Risks to the K-12 Enrollment Forecast

• **Upside risk to the forecast**
  – Students return more quickly than expected

• **Downside risks to the forecast**
  – Housing affordability issues
  – Lower birth rates
  – Slowing net in-migration
Assessed Values
Residential assessment rates established at 7.15% with temporary legislative reductions

Residential Assessment Rates

*The assessment rate in 2024 for residential property, except multifamily, is estimated at 6.98% by Legislative Council Staff. The rate will be set at a level to be determined by the state property tax administrator such that the projected total revenue reduction attributable to the changes in SB 22-238 is $700 million over the 2023 and 2024 property tax years.
Nonresidential assessment rates for most property established at 29% with temporary legislative reductions

Nonresidential vacant, commercial, industrial, natural resources, state-assessed, agricultural, and renewable energy assessment rates

![Graph showing assessment rates from 2000 to 2025]

- **Other Nonresidential**, 27.9% in 2023
- **Agricultural and Renewable**, 26.4% to 2024

Source: Legislative Council Staff. Does not include oil and gas land and leaseholds, producing mines, and severed mineral interests that are assessed at varying rates.
2022: Intervening Year

Determines school finance for FY 2022-23

• Intervening year AV changes limited
  – O&G, mines, state assessed, new construction

• **Total AVs will increase 5.5%** from 2021

• Incorporates the impact of **SB 21-293**
  – RAR fell to **6.95%**, or **6.80%** for multifamily
  – NRAR fell to **26.40%** for agriculture and renewable energy
2022 Intervening Year: 5.5% growth
2023: Reassessment Year

Determines school finance for FY 2023-24

- **Total AVs will increase 22.5%** from 2022
  - compare to 4.4% in 2021, 17.0% in 2019, 10.1% in 2017
- **Residential AVs will increase 26.5%**
  - Represents appreciation between June 2020 and June 2022
  - **Statewide** appreciation in home prices
- **Nonresidential AVs will increase 19%**
  - Rebound in commercial values
  - High oil and gas prices
- Incorporates the impact of **SB 22-238’s** temporary assessment rate reductions and subtractions from residential and commercial actual values
2023 Reassessment Year: 22.5% growth

- Northern: 37.2%
- Mountain: 44.3%
- Western: 19.6%
- Metro Denver: 16.7%
- Colorado Springs: 23.8%
- Eastern Plains: 8.2%
- San Luis Valley: 4.6%
- Pueblo: 3.1%
- Southwest Mountains: 9.8%
Risks to the Assessed Valuation Forecast

• Market conditions, including:
  - Value of oil and gas production through the forecast period
  - Housing market correction and impact on 2025 reassessment cycle

• Evolving property tax policy environment
  - Forecast relies on an estimate of the residential assessment rate in 2024 for properties other than multifamily, a rate to be set by the property tax administrator
School Finance Outlook
School Finance Basics

- **Funded Pupil Count** is the statutory student count metric used to allocate funding.

- **State Aid** $= \text{Total Program} - \text{Local Share}$.

- General Assembly sets the **Budget Stabilization Factor** to establish **Total Program** and **State Aid**.

- General Assembly balances contributions to State Aid from **General Fund** and **State Education Fund**.
Change in Expectations for FY 2022-23 School Finance Funding

Dollars in Millions

<table>
<thead>
<tr>
<th>BS Factor:</th>
<th>Current Law Appropriation*</th>
</tr>
</thead>
<tbody>
<tr>
<td>$321 million</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 2022 Expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>The General Assembly’s Choices Range From:</td>
</tr>
<tr>
<td>Hold at $321 million</td>
</tr>
</tbody>
</table>

Source: Legislative Council Staff December 2022 forecast.
*Current Law appropriation uses December 2021 forecast.
Year-over-Year Change in School Finance Funding
FY 2022-23 to FY 2023-24
Dollars in Millions

Source: Legislative Council Staff December 2022 forecast.
*Assumes a constant Budget Stabilization Factor.
Scenario Implications for General Fund (GF) and State Education Fund (SEF) Contributions in 2023-24 & 2024-25

• **Scenario in text assumes GA doesn’t want to:**
  – maintain BS Factor longer than necessary;
  – significantly increase balance in SEF;
  – produce a cliff effect by having negative y/o/y change in GF contribution.

  (Scenario largely depends on predicted increases local share in 2023 and 2025, and inflation moderating.)

• **Eliminating BS Factor and maintaining $1.3 B SEF ending balance in 2023-24 requires:**
  – $49 million increase in GF appropriation;
  – $149 million decrease SEF contribution.

• **Maintaining 0 BS Factor and a $850 M SEF ending balance in 2024-25 requires:**
  – $22 million increase in GF appropriation;
  – $485 million increase in SEF contribution.
Adult Corrections Populations
The prison population increased by 6.0 percent in FY 2022-23, the largest percentage increase since FY 2005-06

Source: Department of Corrections, Office of Planning and Analysis. Monthly data through November 2022.
Shifting relationship between case filings and sentences

Source: Office of the State Court Administrator. Monthly data; both series shown as six-month moving averages through October 2022.
State district court drug felony case filings are down 69 percent from pre-pandemic levels

Felony case filing trends, January through October 2022 monthly average
Over 2019 monthly average

- Drugs -69%
- Violent +11%
- Property +3%
- All Other -16%
- Escape -35%

Source: State Court Administrator’s Office and Legislative Council Staff Calculations. Data through October 2022
New court commitments have risen; other admissions remain suppressed.

Source: Department of Corrections, Office of Planning and Analysis. Monthly data through November 2022.
Releases to parole show signs of flattening

Source: Department of Corrections. Data through November 2022.
After spiking in 2020, parole population plummeted.
The prison population will increase in 2022

Adult Inmate Population Forecasts as of June 30

Source: Department of Corrections and *Legislative Council Staff December 2022 forecast.
Parole caseload has declined since June 2020, expected to rise again starting in FY 2023-24.

Adult Parole Caseload Forecasts as of June 30

Source: Department of Corrections and *Legislative Council Staff December 2022 forecast.
Forecast uncertainty remains elevated

• This forecast always contains (bidirectional) error
  – Before 2020, current year forecast error averaged about 1.7 percent, or 328 inmates
  – Current year forecast error from the 2021 forecast is 0.5 percent, or 75 inmates in June 2022
  – Relative to last year, risks are lower, but remain elevated
  – Longer term impacts of legislative changes are emerging more clearly
  – Uncertainty remains elevated as the system is in transition
  – Small deviations in the timing and extent of assumed adjustments can contribute to large population changes
  – A key risk is staffing shortages and turnover affecting operations throughout the criminal justice system
Youth Corrections Population Forecast
DYS Populations falling with some fluctuations in the forecast period

**Average Daily Populations**

Source: CDHS Division of Youth Services and *Legislative Council Staff December 2022 forecast.
Questions?

Budget, Economy, General
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Corrections & DYS Populations
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