Economic Outlook
Strong growth in Q3 pulled down by net exports

Contributions to Real Gross Domestic Product (GDP)

Source: Bureau of Economic Analysis. Seasonally adjusted annual rates.
Colorado continues to add jobs across industries

Year-over-Year Change in October 2018

Thousands of Jobs

- Professional & Business Services: 17.5
- Leisure & Hospitality: 11.4
- Administrative & Support Services: 8.6
- Trade, Transportation & Utilities: 8.6
- Professional, Scientific & Technical Services: 8.6
- Health Care & Social Assistance: 7.7
- Government: 6.7
- Education & Health Services: 6.7
- Arts, Entertainment & Recreation: 6.6
- Retail Trade: 5.2
- Local Government: 5.1
- Accomodation & Food Services: 4.8
- Construction: 4.3
- Mining & Logging: 4.0
- Manufacturing: 3.7
- Transportation & Utilities: 2.4
- State Government: 2.1
- Information: 2.1
- Real Estate: 1.9
- Financial Activities: 1.5
- Wholesale Trade: 1.0
- Management of Companies & Enterprises: 0.3
- Other Services: -0.1
- Federal Government: -0.5
- Finance & Insurance: -0.9
- Educational Services: -1.0

Percent Change

- Professional & Business Services: 4.3%
- Leisure & Hospitality: 3.3%
- Administrative & Support Services: 5.2%
- Trade, Transportation & Utilities: 2.0%
- Professional, Scientific & Technical Services: 4.3%
- Health Care & Social Assistance: 2.6%
- Government: 2.2%
- Education & Health Services: 1.8%
- Arts, Entertainment & Recreation: 10.2%
- Retail Trade: 1.9%
- Local Government: 1.9%
- Accomodation & Food Services: 1.9%
- Construction: 4.3%
- Mining & Logging: 16.9%
- Manufacturing: 3.4%
- Transportation & Utilities: 3.3%
- State Government: 4.6%
- Information: 3.0%
- Real Estate: 4.8%
- Financial Activities: 0.4%
- Wholesale Trade: 1.0%
- Management of Companies & Enterprises: 0.3%
- Other Services: -0.8%
- Federal Government: -1.7%
- Finance & Insurance: -1.2%
- Educational Services: -4.0%

Interest and mortgage rates are on the rise

U.S. 30-Year Fixed Mortgage Rate

History since 1975

...which is cooling off housing markets.

Source: U.S. Census Bureau. Seasonally adjusted three-month moving averages.
Home price increases are beginning to slow

Case-Shiller Home Price Indices

Index 100 = January 2000

10-City Composite
20-City Composite
CO-Denver

Source: S&P Dow Jones Indices, LLC.
Trade tensions remain high – so does trade activity

Colorado export and import activity on a monthly basis (dollars in millions); increases from January through October 2018 over the same period last year.

Source: WiserTrade.
Colorado exports subject to tariffs weighing on growth

Contributions to percent change in the value of Colorado exports impacted by tariffs January through October 2018 over the same period last year

Source: WiserTrade.
Core inflation has yet to react to tariffs

Source: U.S. Census Bureau. Seasonally adjusted.
Oil prices have dropped almost 40% since October

West Texas Intermediate
Crude Oil Price
Dollars per Barrel

U.S. Crude Oil Stocks
Billions of Barrels

Source: Energy Information Administration (weekly average prices).
Economic Summary

The near-term outlook is positive, but moderating

- Growth will continue but at a slower pace
- Low unemployment may constrain further growth
- The housing market is cooling with higher interest rates and construction costs

Uncertainties cloud the outlook

- Trade tensions will continue to rattle confidence
- Global economy is slowing down
- Volatility in commodity prices expected to persist
General Fund Budget Outlook
Revenue continues to exceed expectations

Gross General Fund Revenue
Billions of Dollars

Change Relative to September

FY 2019-20: +$18.7M
FY 2018-19: +$151.2M

Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 forecast.
Following double-digit growth in FY 2017-18, revenue growth is expected to moderate

Gross General Fund Revenue
Billions of Dollars

14.1% increase in FY 2017-18
- Wage gains and business profits
- Rebound in energy and manufacturing
- Federal tax policy distortions
- $113.3 million in one-time Tobacco MSA payments

Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 forecast.
Change from September: +$91.6 million in accounting adjustments impacting the year-end balance.
Current Year | FY 2018-19 General Fund Reserve
Dollars in Millions

September 2018 Forecast

- 9.3% Reserve
- Surplus Above Required Reserve: $229.5M
- Required Reserve: $813.3M

December 2018 Forecast

- 9.9% Reserve
- Surplus Above Required Reserve: $296.7M
- Required Reserve: $813.3M

Changes from September: +$67.2 million attributable to a higher beginning balance, stronger expectations for income tax collections, and a larger TABOR refund obligation.

Source: Legislative Council Staff forecasts based on current law.
Next Year | FY 2019-20 Budget Outlook

General Fund available above FY 2018-19 appropriations to spend, save, or return to taxpayers

$1.22 billion*

*Reflects revenue expectations and transfers required under current law for FY 2019-20. Since a budget has not yet been set for FY 2019-20, this amount assumes FY 2018-19 appropriations and reserve requirements. Any changes to current law, including FY 2018-19 appropriations, will result in changes to this amount.

Source: Legislative Council Staff December 2018 forecast based on current law and FY 2018-19 appropriations.
TABOR Outlook
Revenue Subject to TABOR
Dollars in Billions

Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 forecast.
TABOR Refund Obligation

1. Reimburse Local Gov’ts for Property Tax Exemptions
   Up to ~$150 million

   If ~$400 million+

2. Temporary Income Tax Rate Reduction
   Next ~$250 million
   If the refund is large enough to
   fund the first mechanism and
   the rate reduction

3. Sales Tax Refund
   Any remaining
TABOR surplus revenue is set aside in the year in which a surplus occurs to pay refunds in the following budget year.

Expected TABOR Refunds & General Fund Budget Impacts

Dollars in Millions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Refunded in Fiscal Year:</td>
<td>2018-19</td>
<td>2019-20</td>
<td>2020-21</td>
<td></td>
</tr>
<tr>
<td>$39.8*</td>
<td>$380.4</td>
<td>$189.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

No Surplus

Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 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 surplus revenue is set aside in the year in which a surplus occurs to pay refunds in the following budget year.

Expected TABOR Refunds & General Fund Budget Impacts

Dollars in Millions

<table>
<thead>
<tr>
<th>Refunded in Fiscal Year:</th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
<th>2020-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>TABOR Surplus &amp; Set Aside:</td>
<td>$39.8*</td>
<td>$140.8</td>
<td>$189.0</td>
<td>$39.5</td>
</tr>
</tbody>
</table>

Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 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.
Risks to the Forecast

• Current FY 2018-19 risks are skewed to the upside
  – Elevated economic activity will carry into 2019
  – Federal tax policy distortions
  – Out-of-state sales tax collections
  …Larger TABOR refunds?

• Longer-term risks are skewed to the downside
  – Slower growth and rising risk of recession as the economic expansion matures

• Higher than usual uncertainty clouds the outlook
  – Unknown impacts of federal tax law changes
  – Out-of-state sales tax collections
K-12 Enrollment Forecast
# K-12 Public School Enrollment

**Full-Time Equivalent Students**

<table>
<thead>
<tr>
<th>Region</th>
<th>Actual 2018-19</th>
<th>Percent Change</th>
<th>Estimated 2019-20</th>
<th>Percent Change</th>
<th>Estimated 2020-21</th>
<th>Percent Change</th>
<th>Average Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro Denver</td>
<td>478,836</td>
<td>-0.3%</td>
<td>477,174</td>
<td>-0.3%</td>
<td>475,612</td>
<td>-0.3%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Northern</td>
<td>87,551</td>
<td>1.4%</td>
<td>88,737</td>
<td>1.4%</td>
<td>89,812</td>
<td>1.2%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Colorado Springs</td>
<td>118,462</td>
<td>0.6%</td>
<td>119,616</td>
<td>1.0%</td>
<td>120,806</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Pueblo</td>
<td>32,099</td>
<td>-1.5%</td>
<td>31,746</td>
<td>-1.1%</td>
<td>31,625</td>
<td>-0.4%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Eastern Plains</td>
<td>25,754</td>
<td>2.9%</td>
<td>26,124</td>
<td>1.4%</td>
<td>36,325</td>
<td>0.8%</td>
<td>1.1%</td>
</tr>
<tr>
<td>San Luis Valley</td>
<td>7,215</td>
<td>0.6%</td>
<td>7,244</td>
<td>0.4%</td>
<td>7,277</td>
<td>0.5%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Mountain</td>
<td>24,837</td>
<td>-0.7%</td>
<td>24,953</td>
<td>0.5%</td>
<td>25,050</td>
<td>0.4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Southwest Mountain</td>
<td>13,054</td>
<td>1.0%</td>
<td>13,103</td>
<td>0.4%</td>
<td>13,159</td>
<td>0.4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Western</td>
<td>50,271</td>
<td>-0.1%</td>
<td>50,286</td>
<td>0.0%</td>
<td>50,483</td>
<td>0.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>Statewide Total</strong></td>
<td><strong>838,079</strong></td>
<td><strong>0.1%</strong></td>
<td><strong>838,983</strong></td>
<td><strong>0.1%</strong></td>
<td><strong>840,150</strong></td>
<td><strong>0.1%</strong></td>
<td><strong>0.1%</strong></td>
</tr>
</tbody>
</table>

Source: Colorado Department of Education and Legislative Council Staff December 2018 forecast.
Assessed Valuation Forecast
Assessed Values in Colorado

Actual Values \times \text{Assessment Rate} = \text{Assessed Values}

- 7.20% Residential*
- 29% Nonresidential
- 87.5% Oil and Gas

*2018 Residential Assessment Rate
Assessed Values in Colorado

Reassessment Cycle

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Valuation Date</th>
<th>Assessment Cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>July 1, 2018</td>
<td>2019 Re-Assessment Cycle</td>
</tr>
<tr>
<td>2020</td>
<td>July 1, 2018</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>July 1, 2020</td>
<td>2021 Re-Assessment Cycle</td>
</tr>
<tr>
<td>2022</td>
<td>July 1, 2020</td>
<td></td>
</tr>
</tbody>
</table>

*2018 Residential Assessment Rate

Actual Values

Assessment Rate

7.20% Residential*
29% Nonresidential
87.5% Oil and Gas

Assessed Values = Actual Values × Assessment Rate
Actual (Market) Values
The Colorado Property Tax Base

Source: Division of Property Taxation and Legislative Council Staff December 2018 forecast.
*Calculated as assessed values divided by an assumed 29 percent assessment rate.
Actual (Market) Values  
The Colorado Property Tax Base

Source: Division of Property Taxation and Legislative Council Staff December 2018 forecast. 
*Calculated as assessed values divided by an assumed 29 percent assessment rate.
Actual (Market) Values
The Colorado Property Tax Base

*Calculated as assessed values divided by an assumed 29 percent assessment rate.

Source: Division of Property Taxation and Legislative Council Staff December 2018 forecast.

- Residential: 16.3% increase
- Nonresidential: 10.5% increase
Share of Residential Value

Actual Values × Assessment Rate = Assessed Values

7.20% Residential*
29% Nonresidential
87.5% Oil and Gas

Residential share of statewide actual value:
- 2013: 75.6%
- 2015: 76.8%
- 2017: 79.1%
- 2019f: 79.4%
- 2021f: 79.9%

Source: Division of Property Taxation.
*2018 Residential Assessment Rate
Share of Residential Value

Actual Values × Assessment Rate = Assessed Values

7.20% Residential*
29% Nonresidential
87.5% Oil and Gas

Residential share of statewide actual value

Target residential share

Source: Division of Property Taxation.
*2018 Residential Assessment Rate
Residential Market Value

Residential Assessment Rate

%
Assessed Values

Actual Values × Assessment Rate = Assessed Values

Source: Division of Property Taxation and Legislative Council Staff forecast.
Assessed Values
Actual Values × Assessment Rate = Assessed Values

Non-Residential
29% assessment rate

Residential

Target Percentage
Assuming 7.20% RAR

Source: Division of Property Taxation and Legislative Council Staff forecast.
Assessed Values
Actual Values × Assessment Rate = Assessed Values

Non-Residential
29% assessment rate

Residential

Target Percentage

7.20% RAR
6.78% RAR

Source: Division of Property Taxation and Legislative Council Staff forecast.
2019 RAR = 6.11%
2019 RAR = 6.78%

2021 RAR = 6.41%

Source: December 2018 Legislative Council Staff forecast.
Assessed Value Forecast Comparison

Source: Division of Property Taxation and Legislative Council Staff forecasts.
Change in Total Assessed Values by School District
2018 to 2019

Source: Legislative Council Staff December 2018 forecast.
2018 Assessed Value

Percent Change in Assessed Value 2018 to 2018

Source: Legislative Council Staff December 2018 forecast.
*Log of assessed values across school districts.
2019 Additional Nonresidential Values

Source: Legislative Council Staff December 2018 forecast.
*Log of assessed values across school districts.
2019 Additional Nonresidential + Residential Actual Value at 7.2%

Percent Change in Assessed Value 2018 to 2019

Source: Legislative Council Staff December 2018 forecast.
*Log of assessed values across school districts.
2019 Assessed Value

New Nonresidential + Residential Actual Value at 6.78%

Percent Change in Assessed Value 2018 to 2019

Source: Legislative Council Staff December 2018 forecast.
*Log of assessed values across school districts.
School Finance Outlook
Change in Expectations for FY 2018-19 School Finance Funding
Dollars in Millions

<table>
<thead>
<tr>
<th>Current Law Appropriation</th>
<th>December 2018 Expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>BS Factor: $672 million</td>
<td>The General Assembly's Choices Range From:</td>
</tr>
<tr>
<td></td>
<td>Hold at $672 million</td>
</tr>
<tr>
<td></td>
<td>Reduce to $593 million</td>
</tr>
</tbody>
</table>

State Aid
- Current Law: $4,546 million
- December 2018 Expectations: $4,468 million
- BS Factor: -$79 million

Local Share
- Current Law: $2,543 million
- December 2018 Expectations: $2,600 million
- BS Factor: +$57 million

Source: Legislative Council Staff December 2018 forecast.
Year-over-Year Change in School Finance Funding
FY 2018-19 to FY 2019-20
Dollars in Millions

Source: Legislative Council Staff December 2018 forecast.
*Assumes a constant Budget Stabilization Factor.
Implications for Balancing General Fund (GF) and State Education Fund (SEF) Contributions in 2019-20

- $79M from 2018-19; $3M drop in state aid requirement in 2019-20 year-over-year leaves many options available.

- Reducing 2018-19 SEF spending by $79M implies $75 million (1.9%) GF reduction in 19-20.

- Reducing BS Factor by $79M implies $83M (2.1%) GF increase in 2019-20.
Adult Corrections Population Forecast
The June 2018 prison population exceeded expectations

• Year-end FY 2017-18 population exceeded 2017 forecast
  – June 30, 2018, population was 20,136, above our forecast by 174 inmates
  – 89% of June 2018 error was attributable to admissions

• FY 2018-19 population is tracking below 2017 forecast
  – November 30, 2018, population was 20,069, below our forecast by 223 inmates
  – 133% of November 2018 error was attributable to releases

Source: Department of Corrections and Legislative Council Staff December 2017 forecast.
Inmate population growing on new court commitments

Adult Inmate Population Forecasts as of June 30

Source: Department of Corrections and *Legislative Council Staff December 2018 forecast.
Court commitments drove population growth in FY 2017-18

Source: Department of Corrections; 3-month moving average.
However, felony case filings are slowing...

FY 2015-16: +12.8 percent
FY 2016-17: +12.0 percent
FY 2017-18: +5.4 percent
FY 2018-19: +4.5 percent (FYTD)

Source: Judicial Department; 12-month moving average.
Discretionary releases to parole spiked this fall

Source: Department of Corrections; 3-month moving average.
Prison population will increase from present levels

• **New court commitments are expected to continue to increase**
  
  — Above-trend releases will alleviate some upward pressure on the prison population, but won’t be sufficient to offset admissions

• **Parole population will increase correspondingly**
  
  — Releases have generated a significantly higher parole population than expected in last year’s forecast

Source: Legislative Council Staff December 2018 forecast.
Parole caseload growth projections revised upward

Adult Parole Caseload Forecasts as of June 30

Source: Department of Corrections and *Legislative Council Staff December 2018 forecast.
Juvenile Corrections Population Forecast
DYS commitment population declining more slowly

Juvenile ADP **Commitment** Population Forecasts by Fiscal Year

Source: CDHS Division of Youth Services and *Legislative Council Staff December 2018 forecast.
Falling commitments decreasing the parole population

Juvenile ADP Parole Population Forecasts by Fiscal Year


Actual Dec 2017 Forecast Dec 2018 Forecast

Source: CDHS Division of Youth Services and Legislative Council Staff December 2018 forecast.
DYS detention population expected to fall slightly

Juvenile ADP Detention Population Forecasts by Fiscal Year

Source: CDHS Division of Youth Services and *Legislative Council Staff December 2018 forecast.
Questions?

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www.leg.colorado.gov/lcs