Presentation to the Joint Budget Committee
September 18, 2020
Economic Outlook
Second quarter plunge in U.S. economic activity was the worst on record

Contributions to Real U.S. Gross Domestic Product (GDP)

Contributions to Real GDP

- Gov't Consumption & Investment
- Net Exports
- Gross Private Investment
- Personal Consumption Expenditures

Shape of Recovery

Real U.S. Gross Domestic Product

*Dollars in Trillions*

Projected Growth 2020: -4.1%

Great Recession

2008: -0.1%
2009: -2.5%

Source: U.S. Bureau of Economic Analysis and Legislative Council Staff September 2020 projections. Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.
Unprecedented federal stimulus has supported economic activity by offsetting wage losses and boosting consumption.

Selected Components of U.S. Personal Income in 2020

*Includes direct payments to households under the federal CARES act and other transfer receipts.

Source: U.S. Bureau of Economic Analysis.
U.S. retail sales exceed pre-pandemic levels

Monthly U.S. Retail Sales

Dollars in Billions

August 2020 Retail Sales
Month-over-Month: +0.2%
Year-over-Year: +1.2%

Source: U.S. Census Bureau, Advanced Retail Trade Report.
Tourism-related sectors continue to struggle

Colorado Retail Sales Relative to January 2020 Levels

Source: Colorado Department of Revenue.
Manufacturing and business activity return to expansionary territory

Institute for Supply Management Indices
Diffusion Index

Source: Institute for Supply Management.
Inflationary pressure remains subdued

U.S. City Average CPI-U Inflation

Year-over-Year Change in Prices

Selected Components, August 2020

Headline inflation includes all products and services. **Core inflation excludes food and energy prices.

Unemployment continues to decline, but remains elevated

Unemployment Rates

U.S.
August: 8.4%
Colorado
July: 7.4%

Colorado has regained 39 percent of jobs lost since the pandemic began.

Reduced travel activity continues to keep downward pressure on oil prices and new exploration in Colorado and nationally.

Source: Energy Information Administration and Baker Hughes.
Outlook Summary

• The economic recovery over the past three months has outpaced expectations
• Damage has nevertheless been extensive, and the pace of improvement shows signs of slowing
• 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, and layoffs could extend beyond the industries first 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
• Additional waves of layoffs
• Pullback in consumption and investment

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 June
FY 2019-20: +$893.8 million
FY 2020-21: +$542.1 million
FY 2021-22: +$209.4 million

Source: Colorado Office of the State Controller and Legislative Council Staff September 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

- Individual Income Tax: 60.7%
- Sales & Use Tax: 27.1%
- Corporate Income Tax: 6.8%
- All other: 5.5%

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 and Legislative Council Staff calculations.
*Income taxes net of the State Education Fund diversion.
Projections for FY 2020-21 are based on limited data

How Much Do We Know About FY 2020-21?
Available General Fund Collections Data as a Share of Total Fiscal Year Collections*

<table>
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<tr>
<th>Month</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
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<td>99%</td>
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</tbody>
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*Six-year average of actual collections data, FY 2013-14 to FY 2018-19.
TABOR Outlook

Revenue Subject to TABOR

Dollars in Billions

Referendum C Cap

TABOR Limit Base

Referendum C Five-Year Timeout Period

TABOR Surpluses

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

Revenue: +$893.8M on much stronger than expected income tax collections for 2019

Truing up actuals
Net transfer: +$47.1M
Appropriations: +$35.3M
Current Year | FY 2020-21 General Fund Revenue

**June 2020 Forecast**
- $272.7 million Excess Reserve
- 5.4% Reserve

**September 2020 Forecast**
- $1.67 billion Excess Reserve
- 18.6% Reserve

**Changes relative to June:**
- Beginning balance: +$900.9M carried over from FY 2019-20
- Revenue: +$542.1M on higher collections to date, slightly higher economic expectations
- Truing up current law estimates
- Net transfers: -$45.1M

Source: Legislative Council Staff forecasts based on current law.
Next 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.

### September 2020 Forecast
$2.90 Billion

### June 2020 Forecast
$1.34 Billion

This amount does not account for caseload growth, inflationary, or other budgetary pressures:

- Elevated uncertainty
- Rising from recessionary spending levels
- $143M+ increase in state aid for K-12 education (see page 15)
- CARES Act CRF moneys no longer available (see page 8)
- Election outcomes

Source: Legislative Council Staff forecasts.
General Fund Budget (Spending or Saving)

Dollars in Billions

- TABOR Refund
- Excess Reserve
- Required Reserve
- Transfers
- Rebates & Expenditures
- Appropriations

FY 2018-19
FY 2019-20
FY 2020-21
FY 2021-22

$2.90 Billion Additional Revenue to Spend or Save

Source: Legislative Council Staff September 2020 forecast and current law.
Risks to the Forecast

New Information
• 2019 income tax collections from delayed filing
• 2 months of FY 2020-21 collections

Unknowns
• Extent of economic damage and its lasting effects
• Impacts of coming off of the federal stimulus
• Influence of the recession on 2020 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
Questions?

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