



September 2018 | Legislative Council Staff
Economic & Revenue Forecast

Presentation to the Joint Budget Committee

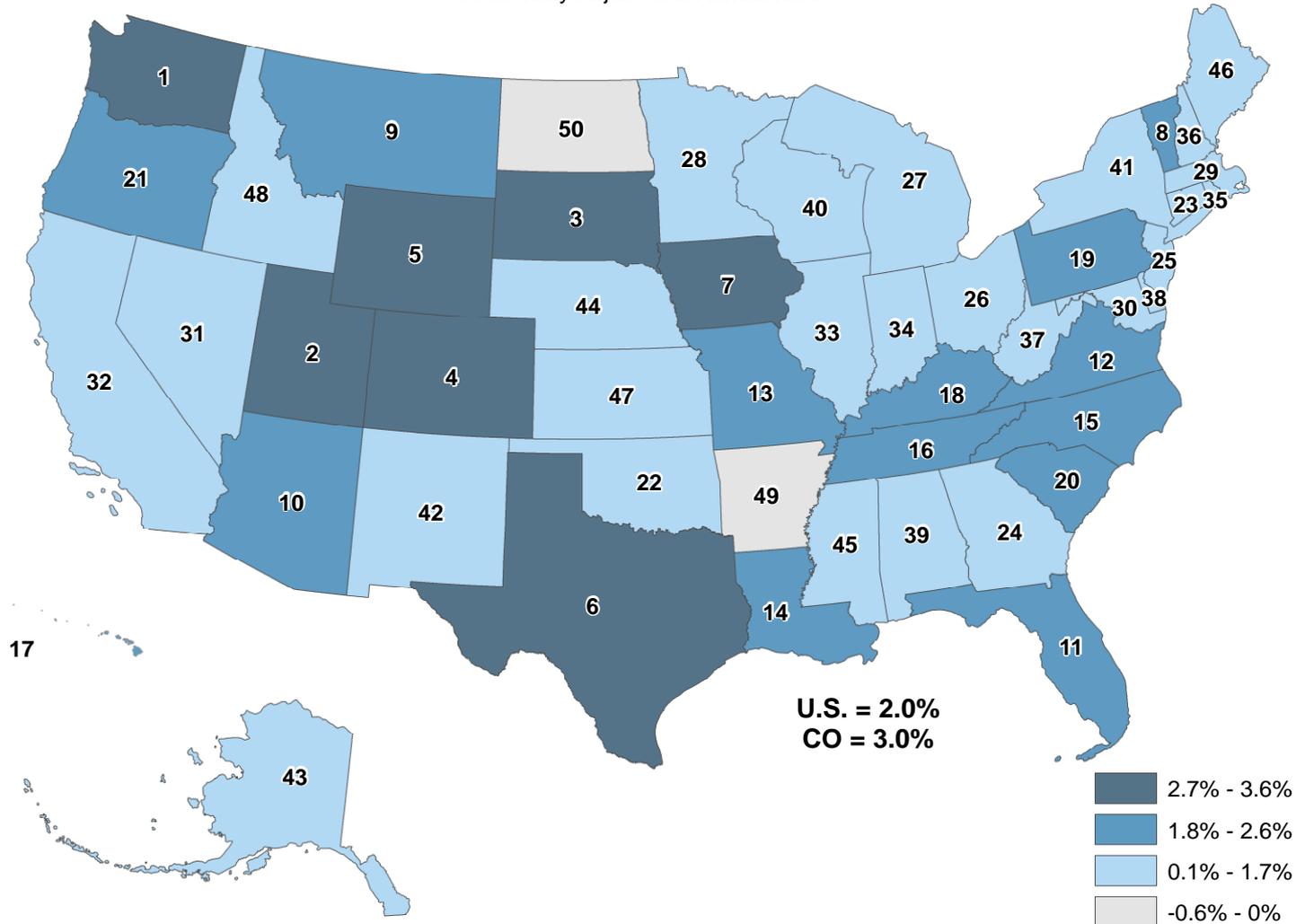
September 20, 2018

U.S. and Colorado economies are in very good shape

- Overall, most U.S and Colorado economic indicators remain strong
 - Healthy levels of job creation
 - Robust consumer demand
 - Rising incomes
 - Solid business investment

Colorado's economy is among the nation's strongest

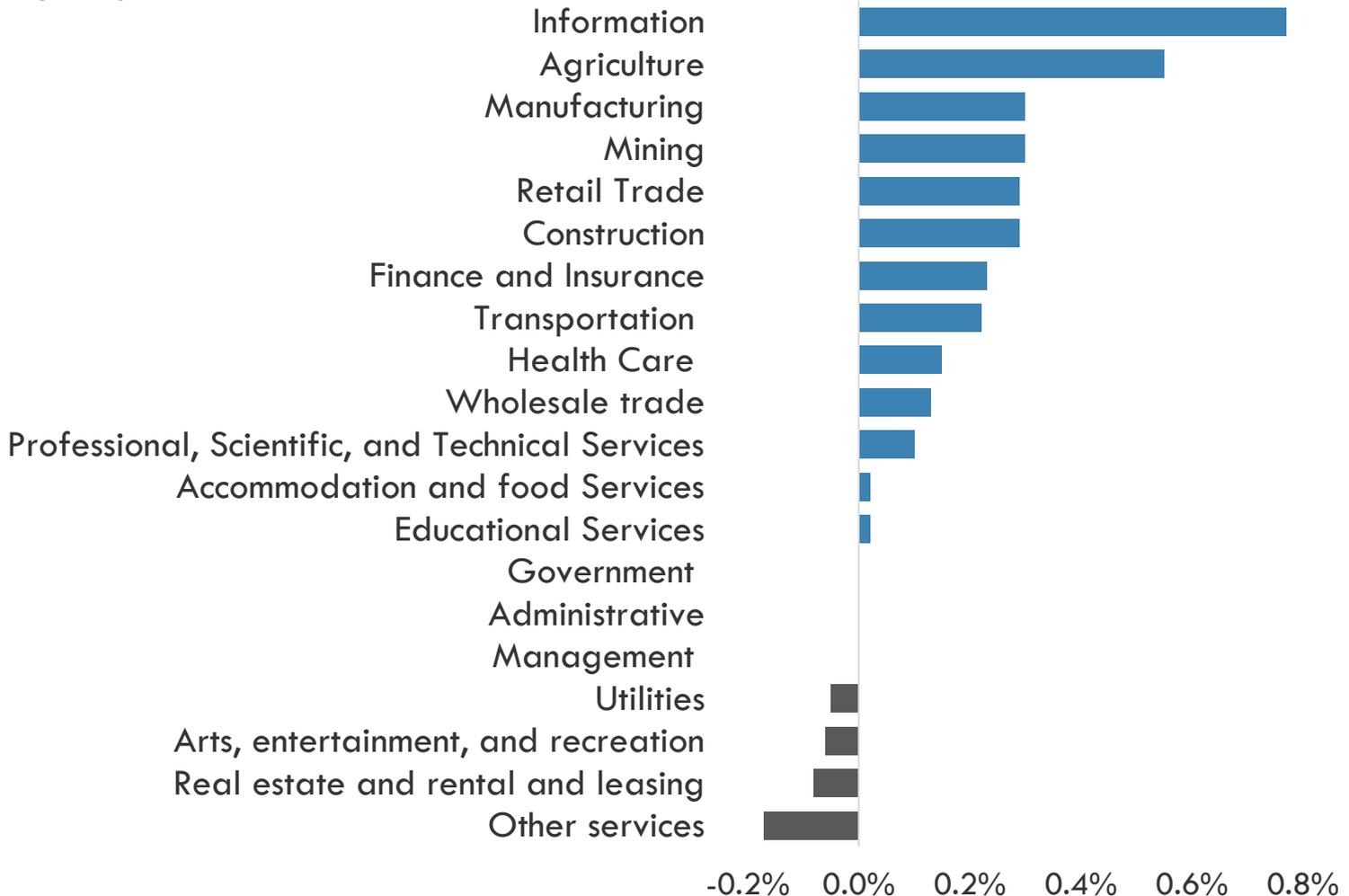
Percent Change in Real GDP by State, 2017Q4 over 2018Q1
Seasonally Adjusted at Annual Rate



Most Colorado industries are contributing to economic growth

Contributions to Real Colorado Gross Domestic Product, 2018Q1*

Seasonally Adjusted Annual Rates



Source: U.S. Bureau of Economic Analysis. Real GDP is inflation adjusted.

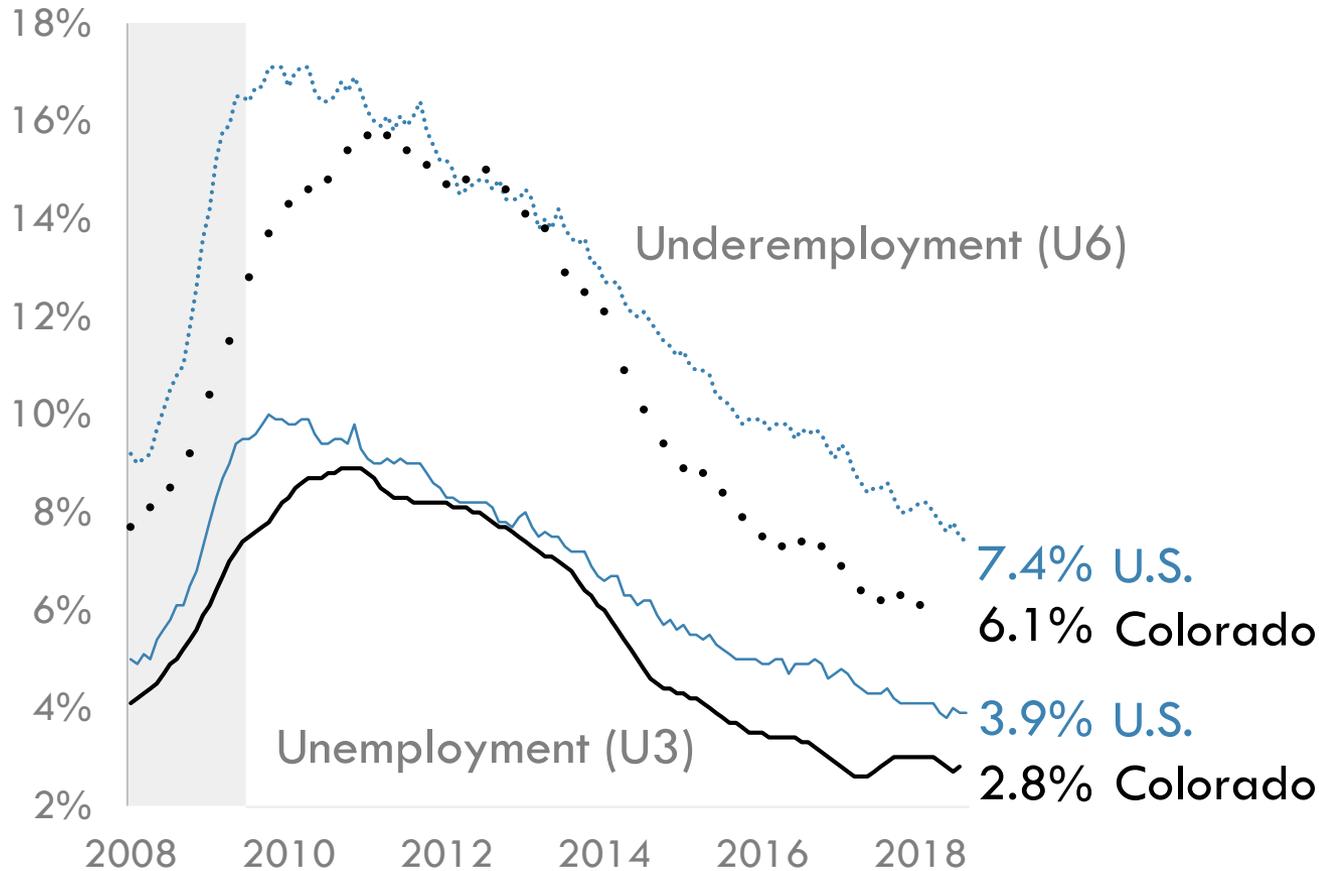
*Contributions to percent change reflect annualized quarter-over-quarter growth.

Amid a strong near-term outlook for the U.S. economy,
risk to economic outlook remains sizeable

- Tightening labor markets
- Rising inflation
- Trade disputes

Both U.S. and Colorado labor markets are extremely tight

Unemployment & Underemployment Rates



Source: U.S. Bureau of Labor Statistics. Underemployment rates for Colorado are shown as four-quarter averages, while data for the U.S. are monthly. Data are seasonally adjusted.

Interest rates are on the rise

Effective Federal Funds Rate



Source: Federal Reserve Board of Governors.

Rising trade tensions and uncertainty

- Retaliatory tariffs continue to escalate
- Near-term impacts are expected to be minimal
- Full impacts of tariffs on Colorado have yet to be seen

Summary of Economic Forecast Expectations

- U.S and Colorado economies are expected to accelerate this year
- Continue to expand in 2019 and 2020, although at slower rates
 - Tightening labor markets
 - Rising inflation
 - Trade disputes

General Fund Budget Outlook

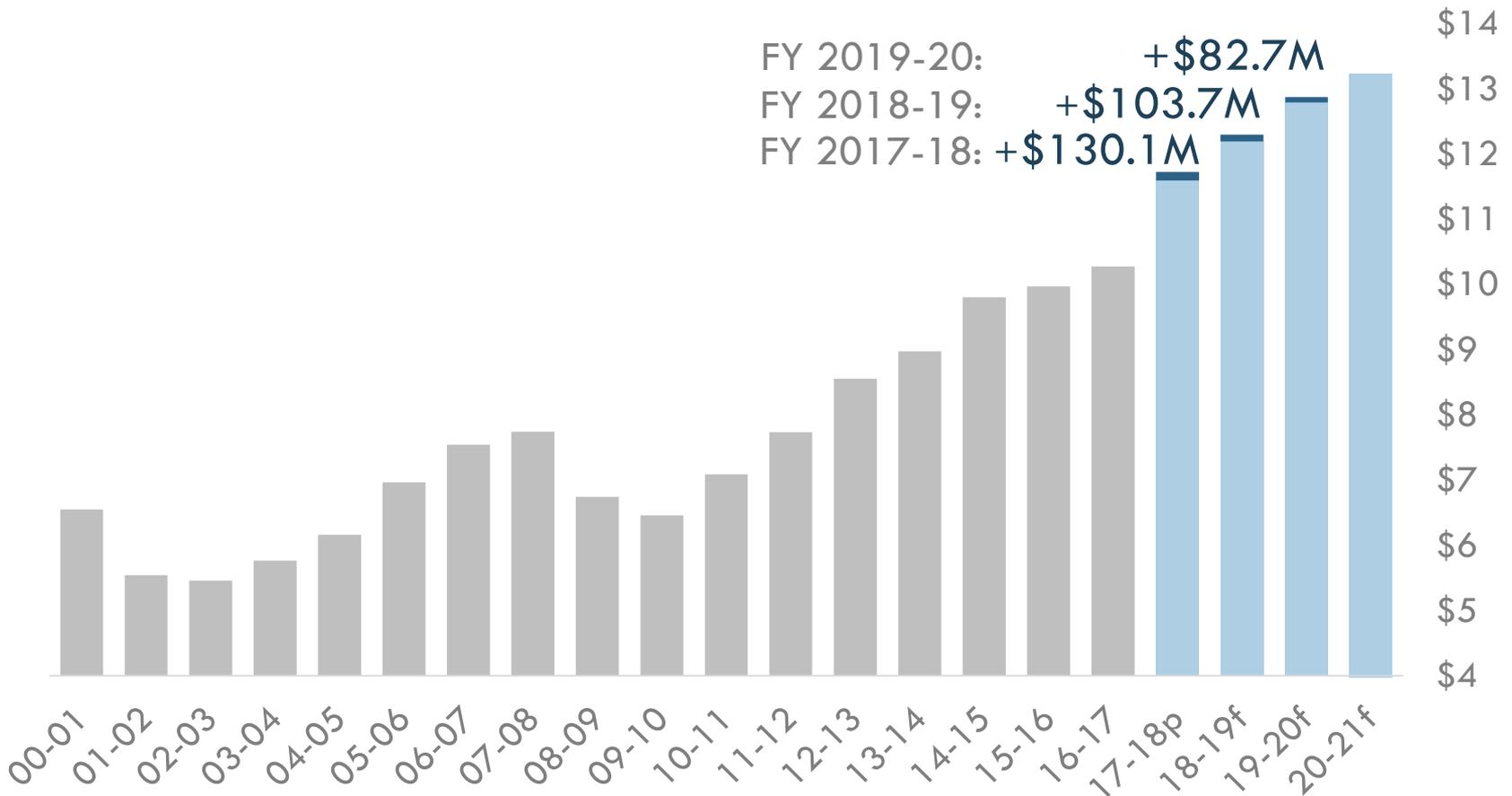


Revenue continues to exceed expectations

Gross General Fund Revenue

Billions of Dollars

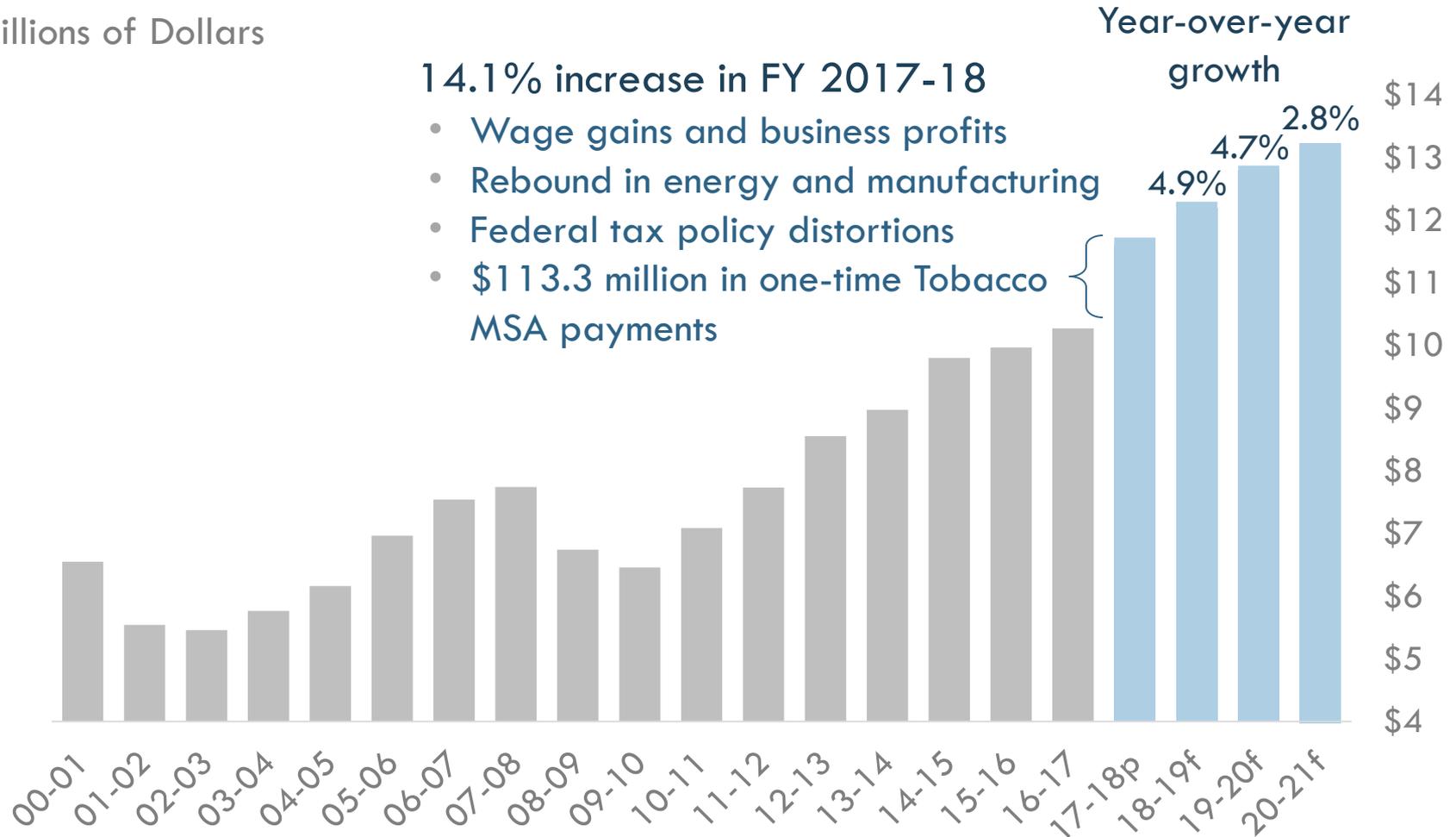
Change Relative to June



Following double-digit growth in FY 2017-18, revenue growth is expected to moderate

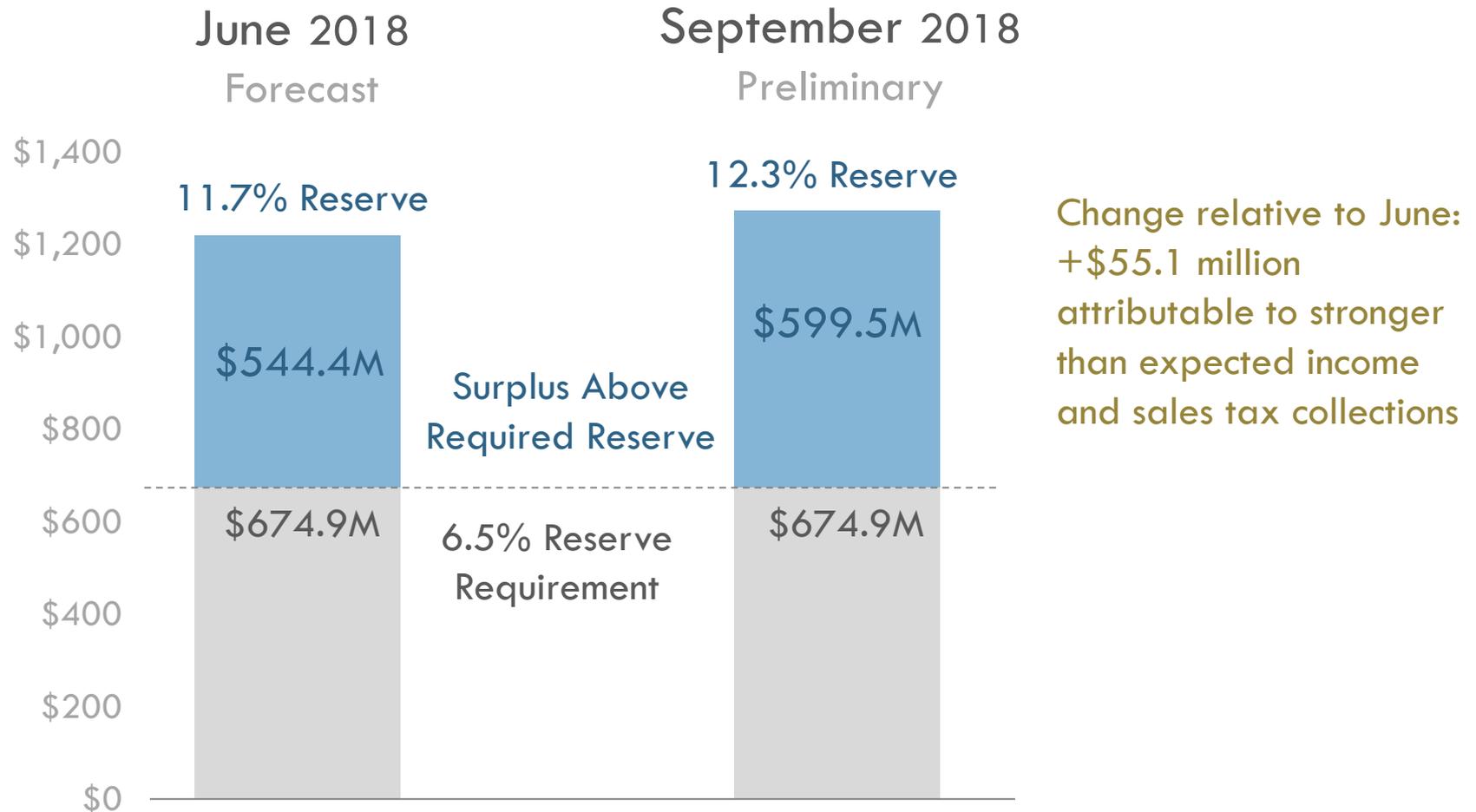
Gross General Fund Revenue

Billions of Dollars



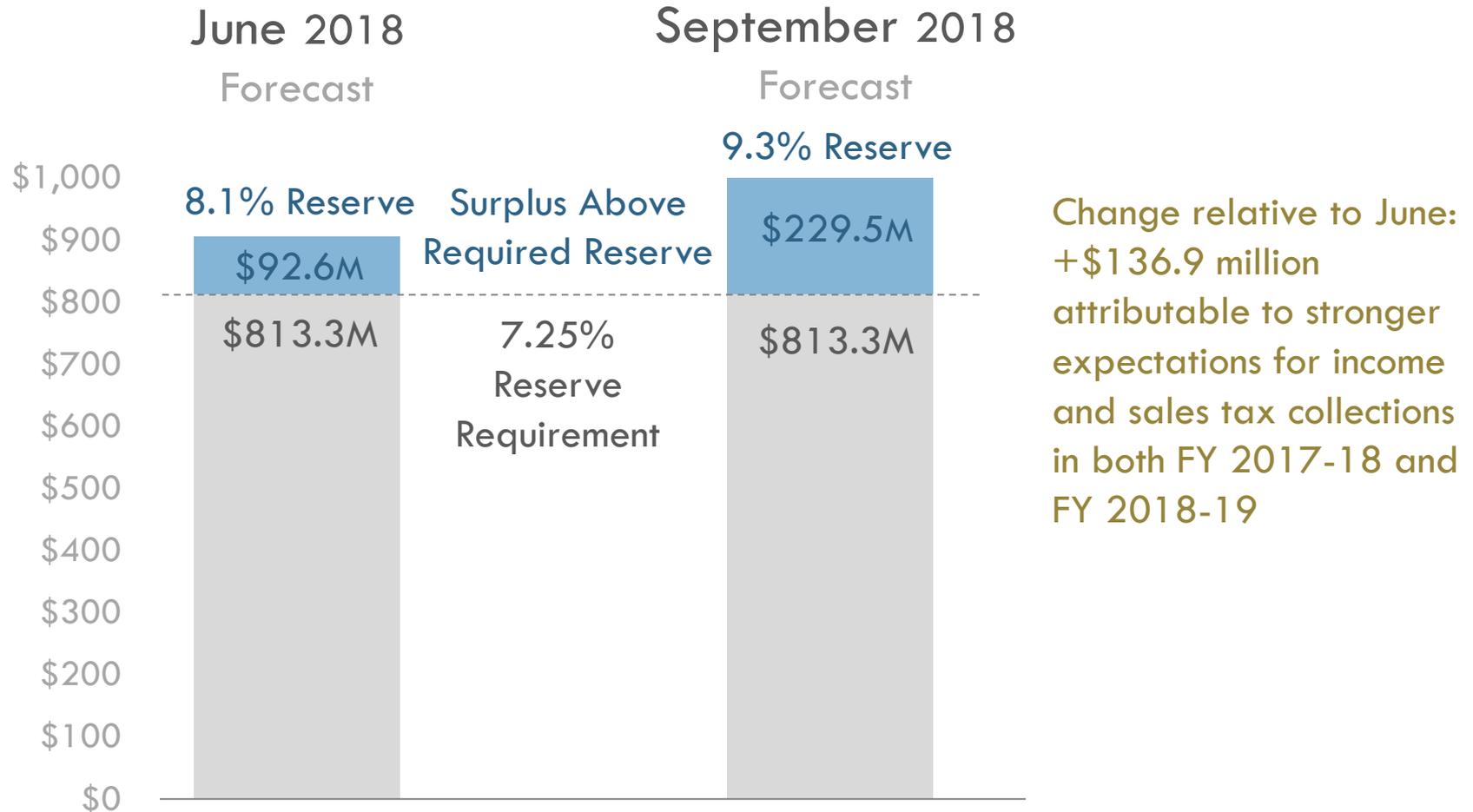
Last Year | FY 2017-18 General Fund Reserve

Dollars in Millions



Current Year | FY 2018-19 General Fund Reserve

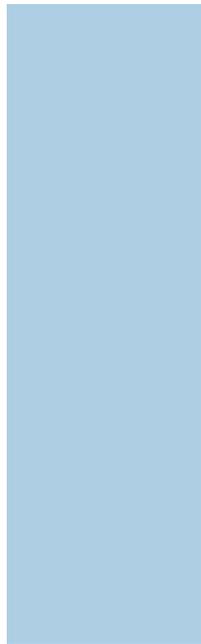
Dollars in Millions



Next Year | FY 2019-20 Budget Outlook

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

\$1.16 billion*

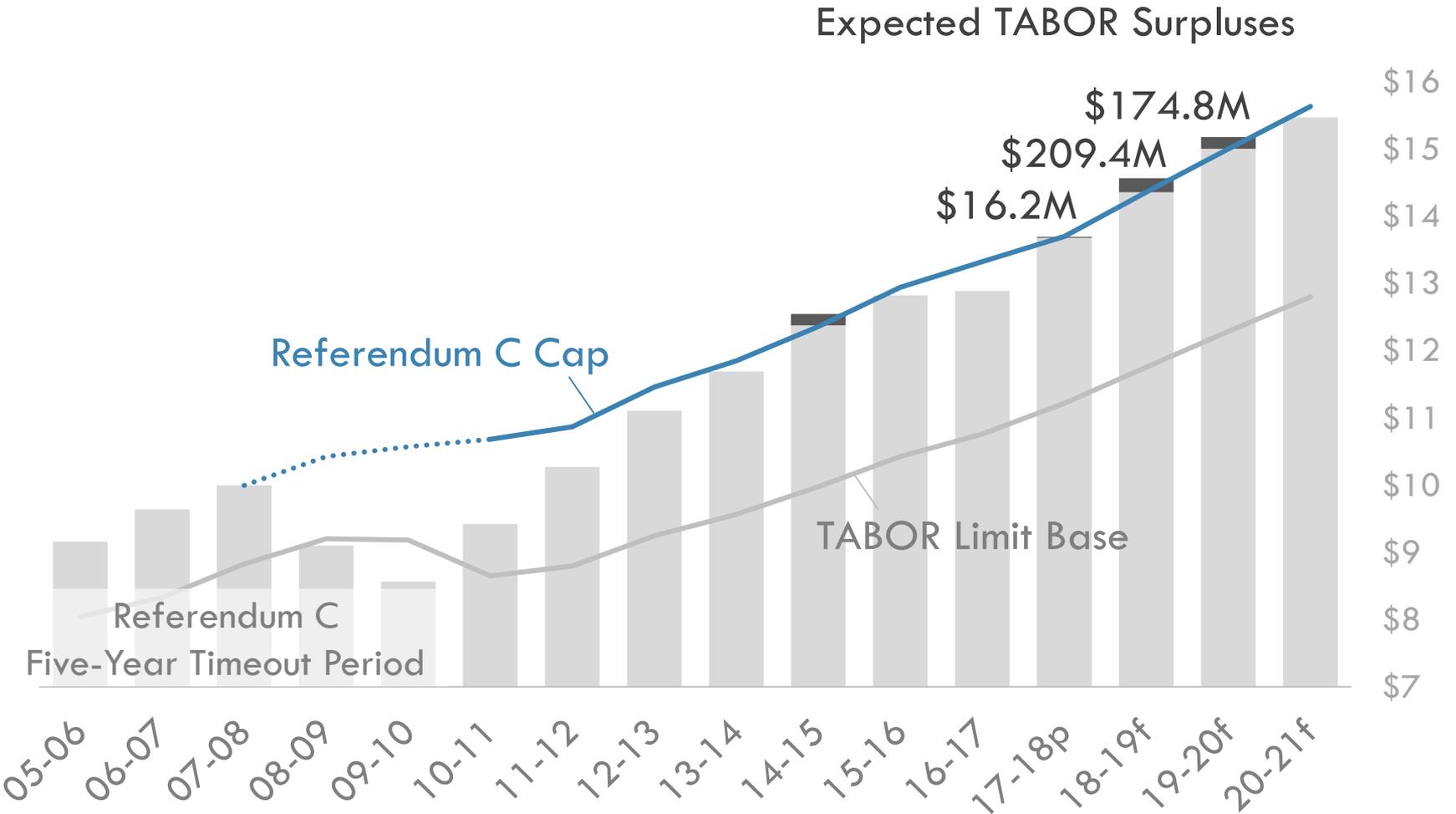


*Reflects revenue expectations and transfers required under current law for FY 2019-20. Since a budget has not yet been set for FY 2019-20, this amount assumes FY 2018-19 appropriations and reserve requirements. Any changes to current law, including FY 2018-19 appropriations, will result in changes to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

TABOR Outlook

Revenue Subject to TABOR

Dollars in Billions



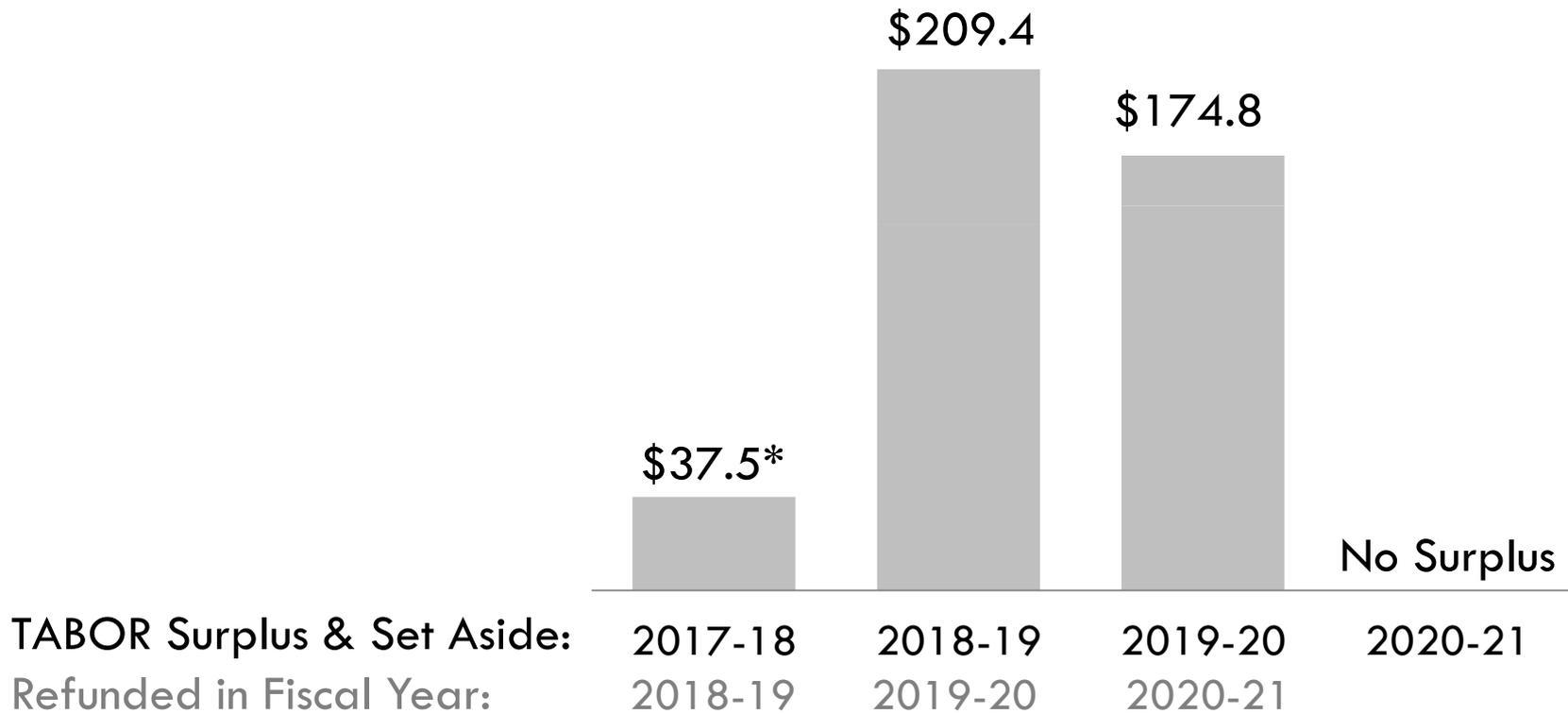
TABOR refund mechanisms are triggered in the order below based on the size of a TABOR surplus

- 1) Up to the full reimbursement amount to local governments for the senior homestead and disabled veteran property tax exemptions.*
- 2) Subject to sufficient revenue, a reduction in the individual income tax rate from 4.63% to 4.5% (would require at least a \$400 million surplus).
- 3) Any left over is distributed via the six-tier sales tax refund mechanism. These refunds are paid when taxpayers file their income taxes and are based on a taxpayer's filing status and adjusted gross income.

*Pursuant to SB17-267, the TABOR refund is first allocated toward reimbursements to local governments for the senior homestead and disabled veteran property tax exemption. Local government reimbursement amounts are not affected.

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

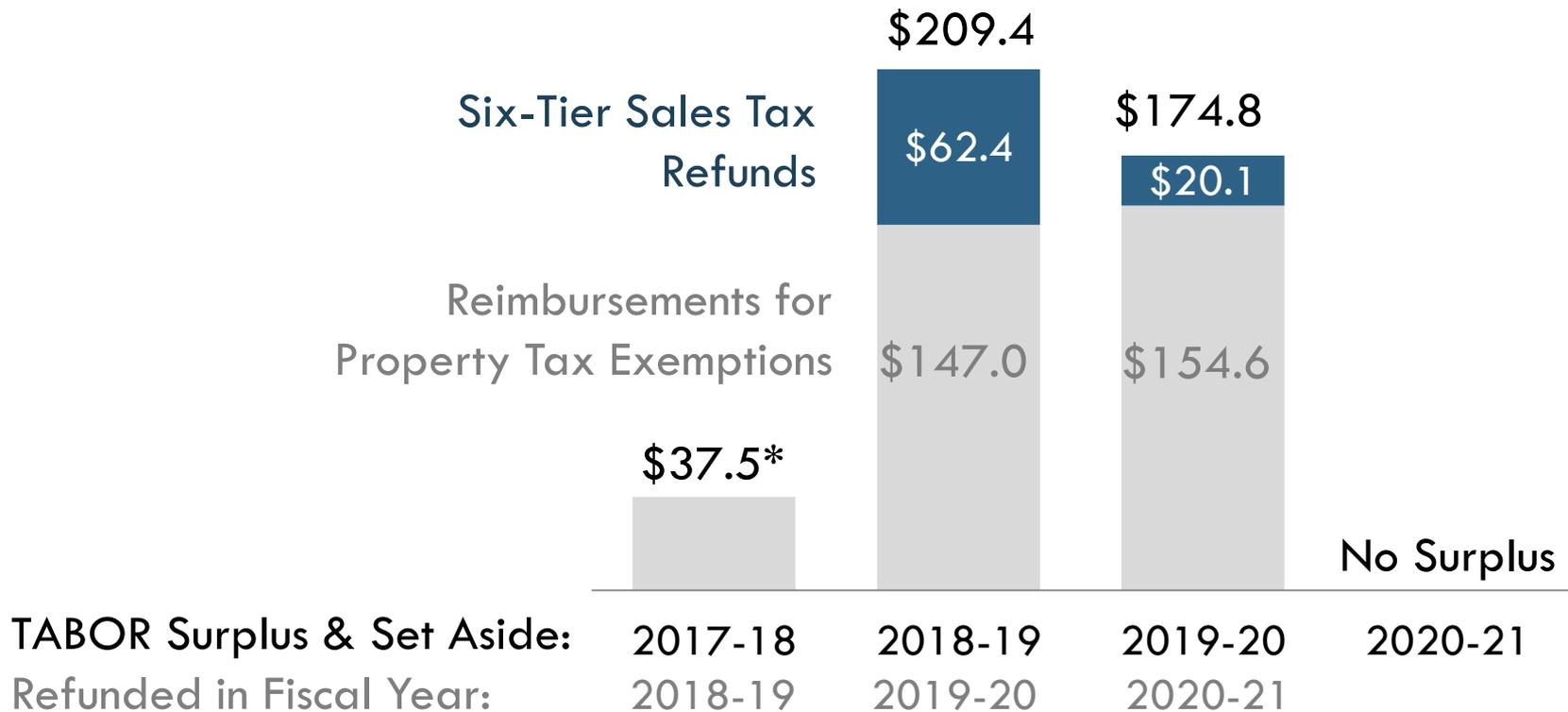


Source: Colorado Office of the State Controller and Legislative Council Staff September 2018 forecast.

*This amount includes the \$16.2 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



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Risks to the Forecast

- **Near-term (FY 2018-19) risks are skewed to the upside**
 - Strong economic activity
 - Oil and gas activity
 - Federal tax policy distortions
 - Out-of-state 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

Questions?

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