



## COLORADO FISCAL POLICY INSTITUTE

Justice and Economic Security for all Coloradans

### Issue Brief: December 2009 Revenue Projections

On December 18<sup>th</sup>, Colorado's Legislative Council released its quarterly analysis of Colorado's economy along with revenue projections expected for the state. The report suggests that Colorado's economy has bottomed out and we are on the slow road to recovery. Unfortunately, the impact of the recession was deeper than anyone predicted. Legislative Council lowered the state's expected revenue yet again, for the sixth quarter in a row.

#### Increasing Shortfalls

Colorado's revenue shortfall grew \$39.9 million to \$600.6 million for the current fiscal year, FY 2009-10. This shortfall equals the difference between revenue the state collects and the original approved budget. The lowered anticipated revenue means that Governor Ritter will have to make additional cuts to the budget for this year. Governor Ritter has already announced \$320 million of budget balancing measures in August and \$286 million of budget balancing measures in October to adjust to the lowered revenue expectations. The fiscal year runs from July 1<sup>st</sup> to June 30<sup>th</sup>, meaning that Governor Ritter must cut the \$39.9 million using only half the fiscal year.

The Legislative Council also lowered revenue expectations for the next fiscal year, FY 2010-11. Next year's shortfall grew \$174 million from the September 2009 forecast. General Fund revenue available for spending in FY 2010-11 is now expected to be \$1.5 billion lower than the approved budget for FY 2009-10. Governor Ritter announced his proposed budget for the next fiscal year on November 6<sup>th</sup>, 2009, which closed the budget gap through cuts and some revenue increases. With these new estimates, an additional \$174 million of budget balancing measures must be included to next year's budget. The following table shows the declining estimated revenue for each fiscal year as the economic downturn deepened.

Declining General Fund Revenue Projections December 07 – December 09			
Date of Projection	FY 2008-09 (last year)	FY 2009-10 (current year)	FY 2010-11 (next year)
Dec 2009	\$6,737.8	\$6,500.0	\$6,425.3
Dec 2008	\$7,213.5	\$7,260.8	\$7,834.3
Dec 2007	\$8,160.8	\$8,615.2	\$9,103.9

*Amounts shown in millions. Information from Legislative Council Quarterly Projections*

Lowered corporate and personal income revenue expectations fueled the declining projections. Continuing high levels of unemployment and weak wage growth caused these income taxes to decrease. Sales taxes, another primary source of revenue for the state, are projected to fall 3.9% from last year. However, the steep decline in sales tax revenue began to subside in the first part of FY 2009-10, in part due to improved consumer confidence and federal stimulus programs. In addition, 2009 legislation that enhanced sales tax revenue partially offset the rapid decline in sales tax receipts.

### **Cash Fund Revenue**

Total Cash Fund revenue subject to the TABOR revenue limit is expected to decline 9.9 percent in FY 2009-2010 from FY 2008-09. Part of this decline is attributable to the new TABOR exempt status of unemployment insurance revenue (HB 09-1363), formerly one of the largest sources of cash funds subject to the TABOR revenue limit.

Legislative Council staff reduced the forecast for TABOR cash fund revenue by \$22.2 million for FY 2009-10 and by \$177.6 million over the three-year forecast period. This is despite increases in transportation and increased motor vehicle registration fees generated by FASTER (SB 09-108) and new revenue anticipated from the Hospital Provider Fee (HB 09-1293). Both fees are expected to generate less revenue than originally projected.

Volatile severance taxes paid by the oil and natural gas industry have come in higher than expected and the forecast for severance tax revenue was increased from the September forecast by \$30.5 million to \$85.4 million for FY 2009-10.

Finally, Limited Gaming Revenue, which had seen its sharpest decline since 1991, began to rebound in FY 2009-10. Revenue is expected to grow by 4.6 percent in FY 2009-10 to \$103.5 million.

### **Recession Ending**

The exceptional decline of state revenue seems to have hit the bottom. The Legislative Council report suggests that the recession in Colorado is over and a “snail-pace” recovery is beginning. This is welcome news, but the report still predicts growing deficits through Fiscal Year 2011-12 as the state continues to see high unemployment, stagnant wages and restrained consumer spending.

### **Solutions Must Come from Both Sides of the Ledger**

The “Great Recession” has forced our state leaders to make difficult decisions regarding the budget. Governor Ritter has already proposed around \$540 million in programmatic cuts for Fiscal Year 2010-11. His budget request, released in November, makes cuts to almost every area of the budget including higher education, health care and a \$290 million total fund cut for K-12 education.

The new December projections will force more budget balancing decisions. For example, if all of the \$174 million in less revenue is balanced by cuts to K-12, Colorado will spend over \$650 less per student in FY 2011 than what was appropriated last year.

To close the budget gap, state lawmakers must consider both sides of the ledger and look at increasing revenue. Continually cutting Colorado's budget hinders public services just when Colorado families are in greatest need. Additionally, further cuts mean less money in the economy and could lead to layoffs, which would impede the recovery. In this economic downturn, Colorado must continue its investment in vital public services like schools, medical care, and roads.

Governor Ritter proposed 13 revenue augmentation measures for the next fiscal year to help avoid cuts. Lawmakers should continue to look for ways to close tax loopholes and eliminate ineffective giveaways which take money from the public sector. Every dollar that the state saves by closing tax loopholes prevents one dollar worth of cuts to education, health, and other critical services that benefit all Coloradans.

Click here to find the Legislative Council's Economic and Revenue Forecast:

<http://www.colorado.gov/cs/Satellite?c=Page&cid=1209461748559&pagename=CGA-LegislativeCouncil/CLCLayout&rendermode=preview>

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