



COLORADO FISCAL POLICY INSTITUTE

Great Recession continues to threaten services

Slow recovery means more budget shortfalls

March 26, 2010

Three clear messages emerged from the nonpartisan Legislative Council's projections of Colorado revenue released March 19. First, an unexpected slight increase in revenue should prevent further budget cuts for the fiscal year that ends June 30. Second, the road to economic recovery appears to be slow and long, almost assuring either more revenue or more service cuts will be needed to close a budget shortfall in at least one of the next two years.

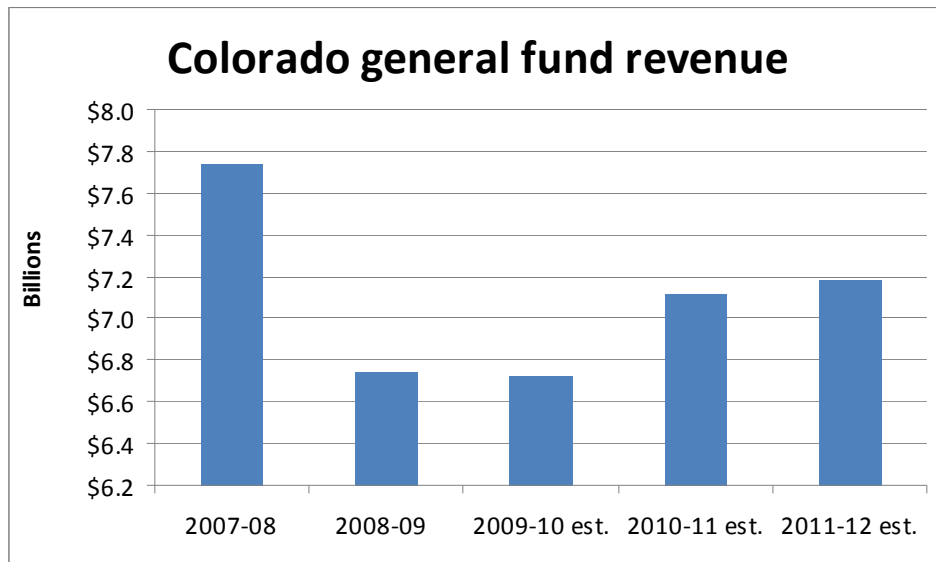
The budget shortfalls would come on top of the \$3.5 billion in cuts and other budget-balancing tactics used by Gov. Bill Ritter and the General Assembly for the budget years 2009-10 and 2010-11. Additional cuts would threaten critical services that Colorado families depend on, like health care and education.

Third, the shortfalls highlight not only the economic challenges facing Colorado families, but also the systemic problem facing lawmakers who must decide how to pay for core services like Medicaid, public schools and colleges. That challenge underscores the need for a long-term fix to the state's outdated revenue structure.

Revenue projection

During the forecast period, which is through fiscal year 2011-12, general-fund revenue is not expected to return to its 2007-08 peak of \$7.74 billion. After decreasing \$1 billion in 2008-09, general fund revenue — which is largely sales and income tax collections — is expected to grow in 2010-11 (5.8 percent) and then slightly again in 2011-12 (1 percent). Still, general fund revenue collections, which account for slightly more than a third of the state budget, are not expected to generate enough revenue to meet demand for services.

Fig. 1



Source: Colorado Legislative Council, October 2009 and March 2010

The March revenue projections showed the state collecting \$230 million more in general fund revenue in 2009-10, and \$335.4 million more in 2010-11, than had been forecasted in December. That means the Legislature will probably not make any more dramatic changes to the budget that ends June 30.

Increased economic activity is expected to account for about a third of \$335.4 million increase in general-fund revenue for 2010-11, according to Natalie Mullis, the chief economist for Colorado’s Legislative Council staff. A variety of tax policy changes at the state and federal level are expected to account for about two-thirds of the projected increase in general fund revenue.

Figure 2 shows the range of effects the increased general-fund revenue collections could have on the state budget. The Legislative Council report offered two scenarios. The “worst-case scenario” is based on current law. That means it takes into account only measures that have been approved by both the General Assembly and the governor, such as cuts to the 2009-10 budget through supplementals and minor changes to sales and income taxes. The “best-case scenario” also includes three bills (HB10-1317, HB10-1339, and HB10-1329) that transfer money from different areas in the budget to help balance the 2009-10 but have not yet been signed by the governor.

Fig. 2 **General fund revenue compared to current spending**

	2009-10 estimate	2010-11 estimate	2011-12 estimate
Best-case scenario	\$147.7 million	\$262.2 million	\$-100.8 million
Worst-case scenario	\$35.1 million	\$-320.6 million	\$-575.2 million

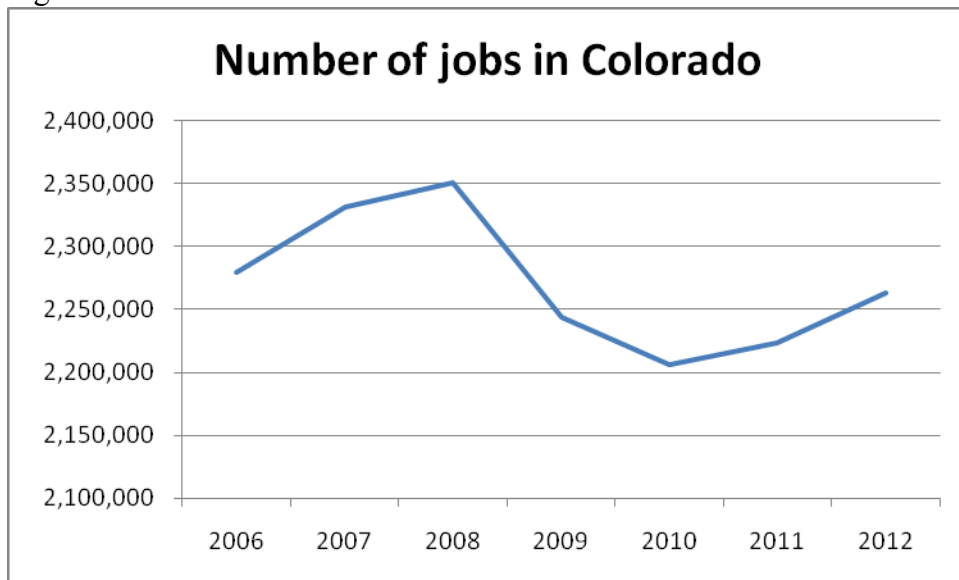
Source: Colorado Legislative Council, March 2010

Both scenarios are conservative. Neither scenario captures a complete picture of the spending pressures facing the state during the next couple of years. Neither scenario takes into account inflation, caseload growth in health care and human services, an increase in public schools, or the loss of federal Recovery Act money. In addition, neither scenario takes into account restoring budget cuts, so even if the state ends up with \$262.2 million in general fund revenue that exceeds budgeted appropriations, it would be difficult to call that a surplus given the magnitude of cuts to services that preceded the March revenue forecast.

Economy

Legislative Council’s revenue projections also included an outlook on the state’s economy. It shows that recovery from the Great Recession will be slow and remains uncertain.

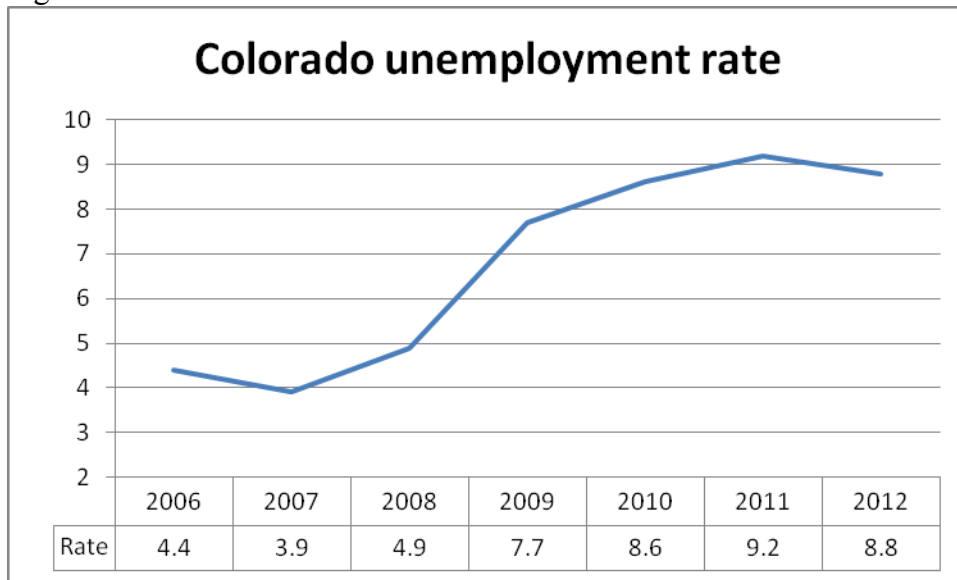
Fig. 3



Source: Colorado Legislative Council, March 19, 2010

Employment is expected to continue declining for at least the rest of this year as the state sheds another 38,000 jobs (Fig. 3), with unemployment reaching its worst point in 2011 at 9.2 percent (Fig.4). Although the state should begin adding jobs again in 2011, and continue that trend into 2012, unemployment is projected to stay higher than 8 percent during the forecast period as workers classified as underemployed — those who quit job searching or are working part-time — return to the workforce.

Fig. 4



Source: Colorado Legislative Council, March 19, 2010

Mullis said Colorado’s economy has been in an expansion for five months. She cautioned, though, that even though Colorado is well-positioned to recover from the Great Recession other threats could still derail recovery. The threats include high unemployment, weakening assets, tightening credit, deteriorating consumer confidence and too steep a loss of federal monetary stimulus.

Recommendation

Legislative Council’s revenue forecast makes it even more clear the current budget process in Colorado has systemic problems that require comprehensive solutions. In the short term, Colorado lawmakers need to consider ways to raise revenue to offset repeated cuts to programs that serve Colorado families. In the long term, the General Assembly and Colorado voters should consider modernizing the state’s revenue structure so it better reflects the state’s 21st-century economy and produces sufficient revenue to meet the need of Colorado’s families.

For more information contact:

Terry Scanlon
Fiscal Policy Analyst
303-573-5669 ext. 311
tscanlon@cclponline.org