



## COLORADO FISCAL POLICY INSTITUTE

### **FACT SHEET: Revenue Projections** **September 2008**

On Monday September 22, Legislative Council Staff released the quarterly *Economic and Revenue Forecast, 2008-2012*. The news was not great. The staff is now projecting less General Fund revenue in each year of the four year period than they anticipated in June. But the most significant news was the reduction in FY 08-09 revenue. This reduction is particularly newsworthy since it will result in reductions to the legislatively approved budget for FY 08-09. In fact, the announcement prompted Governor Ritter to impose a hiring freeze and to suspend several capital construction projects that were in the works.

The estimates project growth in general fund revenue in the last three years of the forecast period. However, those revenue increases assume an optimistic rebound in FY 09-10 for individual (8%) and corporate income (16.5%) taxes. We should not be surprised if the December estimates are adjusted downward further.

The new four-year forecast:

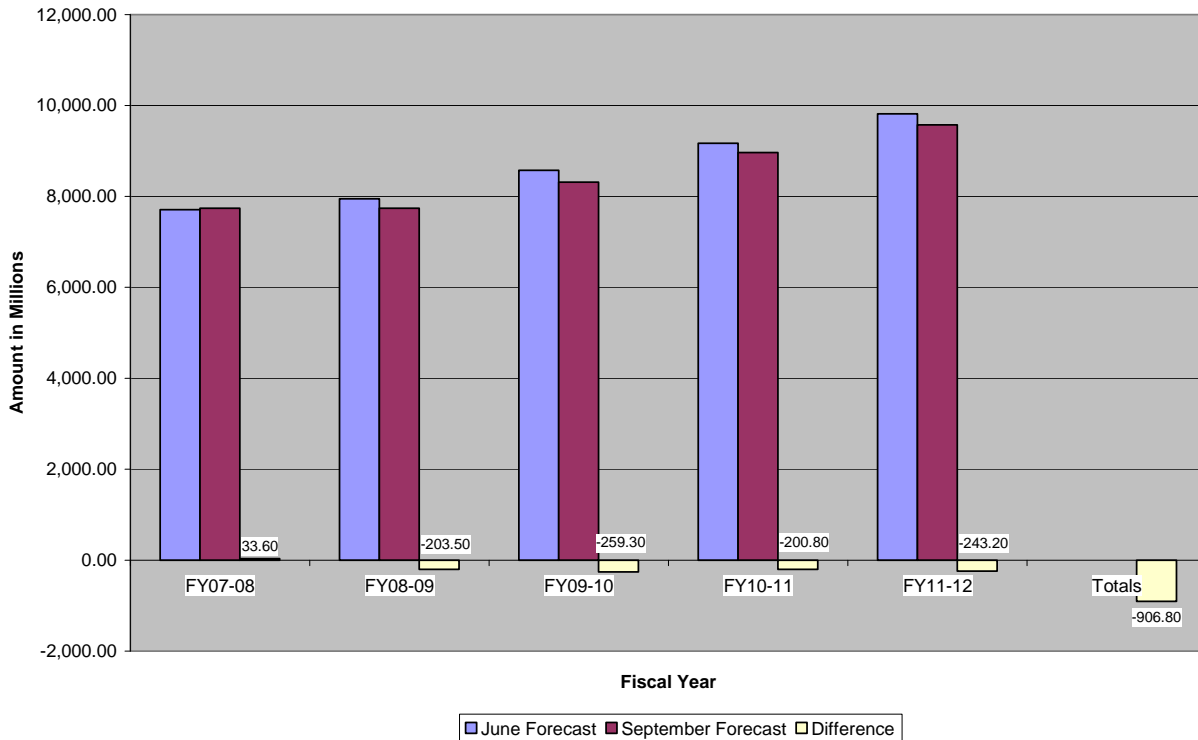
- *decreased* General Fund revenue by \$906.8 million; and
- *increased* Cash Fund revenues by \$19.4 million.

#### **General Fund Revenue**

General Fund revenues will allow current year General Fund appropriations to increase by 4.21%, \$99.4 million *below* the amount budgeted in the FY 2008-2009 Long Bill and \$127.1 million below the 6% limit. However, the forecast for the other 3 years shows revenue sufficient to increase General Fund appropriations by the allowed 6%.

Sales tax and individual and corporate income tax collections are expected to decline this fiscal year, resulting in flat General Fund revenues in FY 2008-2009. This represents a \$203.5 million reduction from the June forecast. Both individual and corporate income taxes are expected to rebound in FY 2009-2010. However, sales tax revenue is anticipated to remain weak into FY 2009-2010 as consumers adjust to higher costs of basic needs, stagnant home values and other negative economic factors.

### Gross General Fund Estimate June vs. September



### Cash Fund Revenue

Cash Fund revenues subject to the TABOR spending limit is anticipated to increase 10% from FY 2007-08 to 2008-09. Over the full four year period the total increase is expected to be 1.6%.

The adjustment between June and September was an increase of \$50.2 million. More than 50% that adjustment (\$27 million) is due to a TABOR complication that changes the way the state books tuition from Fort Lewis and Adams State colleges. The rest is due to fluctuations in Unemployment Insurance Premiums and other fees and cash funds.

### Highway Users Tax Fund (HUTF) and Capital Construction

House Bill 02-1310 requires that all revenue in excess of the 4% statutory general fund reserve be divided 2/3rds to HUTF and 1/3 to capital construction. In FY 2007-2008, the HUTF and capital construction will share \$41.9 million. Legislative Council does not anticipate sufficient revenues to make a 1310 transfer in FY 2008-2009 or FY 2009-2010.

Once the 6% Arveschoug-Bird General Fund spending directive is met, Senate Bill 97-01 directs General Fund revenues into the HUTF, up to 10.335% of sales tax revenues. The HUTF received \$238.1 million for FY 2007-2008 as a result of SB 97-01. The forecast shows no funds available for the transfer in FY 2008-2009 and only \$107.3 million in FY 2009-2010, down from the \$256.4 million predicted in June.

### TABOR and Referendum C

The amount of revenue retained by the state during Referendum C's five-year timeout is now estimated to be \$5.7 billion rather than \$6.1 billion, as predicted in the June forecast. Referendum C is set to expire in FY 2009-2010.

At the end of the Referendum C period, the base will become the year with the highest revenue collections in the five year timeout period. From that point, state revenues will be constrained by TABOR's strict formula of population plus inflation. Any revenues collected above the limit must be rebated to taxpayers. Legislative Council predicts no TABOR rebates in FY 2010-2011, but \$5.4 million in FY 2011-2012. This is largely due to fluctuations in unemployment insurance premiums.

### **General Fund Reserve and General Fund Appropriations**

After only 4.21% growth in General Fund appropriations in the current year (FY2008-2009), General Fund appropriations are expected to grow by the allowable 6%. The statutory reserve of 4% is reached each year.

<b>September Forecast</b>	<b>FY07-08</b>	<b>FY08-09</b>	<b>FY09-10</b>	<b>FY10-11</b>	<b>FY11-12</b>
Statutory Reserve (4%)	\$283.5	\$296.8	\$314.6	\$333.5	\$353.5
Appropriations Growth Percent	4.21%	6.00%	6.00%	6.00%	6.00%
Appropriations Growth Amount	\$433.1	\$300.1	\$445.2	\$471.9	\$500.2

### **The National Economic Outlook**

Despite some positive growth in the 2<sup>nd</sup> quarter, the national economy continued to show troubling signs of a deepening recession. Employers cut 159,000 jobs in September, the largest drop since March of 2003 and the ninth consecutive month of losses. The unemployment rate held at 6.1%, up from 4.7% at this time last year. In September, the number of long-term unemployed (more than 27 weeks) increased 167,000 to 2.0 million, an increase of 728,000 over the last 12 months.

Despite the passage of the \$700 billion financial bailout, all the major indexes closed out the first week of October posting big losses. Consumer and investor confidence has been shaken, but the state's Chief Economist expects some stabilization during the middle of 2009.

Housing starts were at the lowest level since 1991, allowing existing home sales to increase by 3.1% in July.

The rate of inflation decreased slightly, 0.1%, after increasing 0.8% in July. The annual inflation rate is 5.4%. The increase is due to rising energy, transportation and food costs.

Legislative Council Staff anticipates that real GDP will grow by 1.7% in 2008 and 1.9% in 2009. The consumer inflation rate will accelerate to 4.3% in 2008 and drop to 3.5% in 2009. Personal income will increase 4.6% in 2008 and we will see very modest wage at salary growth of 3.0% in

2008 and 3.6% in 2009. The unemployment rate is expected to average 5.6% in 2008 and 5.9% in 2009.

### **Colorado's Economic Outlook**

While Colorado's economy has slowed, it continues to outperform the national economy. Employment in Colorado increased 1.7% so far this year, ranking 5<sup>th</sup> in the nation. The unemployment rate in July was 4.7% stepping up to 5.4% in August, the highest point since April of 2005, but still below the national rate of 6.1%. The number of unemployed workers in Colorado has grown nine out of the last ten months.

Colorado's economy is not expected to dip into a recession, but high food and gas prices, the credit crisis and the housing market problems are taking a toll. Employment in the construction sector is down 1.4% through July and 1.2% in the financial services sector.

Consumers have cut back and retail trade sales increased by a modest 3.4% in the first half of 2008. However, if you exclude food and gas sales, consumer spending increased only 0.9% during the same time.

Inflation in the Denver-Boulder-Greeley area was 3.7% during the first half of 2008, up from 2.2% in 2007. Housing, which makes up more than 40% of the index, increased only 1.7% while food increased 5.7% and fuel 24.8%.

Looking forward, Legislative Council Staff anticipates that employment will increase 1.5% in 2008 and 1.9% in 2009. The state's unemployment rate will increase to an average 5.0% in 2008 and 5.2% in 2009. The state's population will increase 2.0% in 2008 and 1.8% in 2009. After increasing 6.5% in 2007, Colorado's personal income will increase 5.9% in 2008 and wages and salaries will also increase 5.8% in 2008. Consumers will continue to "tighten their belts" through the remainder of 2008 and 2009. Retail trade is expected to increase 3.5% in 2008 and 4.3% in 2009. Inflation is expected to settle in at 3.6% in 2008.