June 2023 Quarterly Revenue Forecast

The Joint Budget Committee met today for the June 2023 Economic Forecast. Legislative Council Staff (LCS) and the Office of State Planning and Budgeting (OSPB) forecasts show a continued, yet moderate, economic expansion. Both LCS and OSPB noted that inflationary pressures in Colorado are dropping, but at a slower rate than the United States as a whole, due to elevated housing costs. While individual final tax payments were lower than expected, corporate income tax revenues have surpassed expectations in Colorado and across the country. The risk of near-term recession is less than previous quarterly projections and the revenue forecast anticipates a continued yet slowing expansion with growth projected in the out years. State revenue is projected to exceed the TABOR Referendum C cap through the three-year forecast period according to both forecasts.

Legislative Council Staff June 2023 Revenue Forecast
LCS Presentation
Office of State Planning and Budgeting June 2023 Revenue Forecast
OSPB Presentation

State General Fund Projections

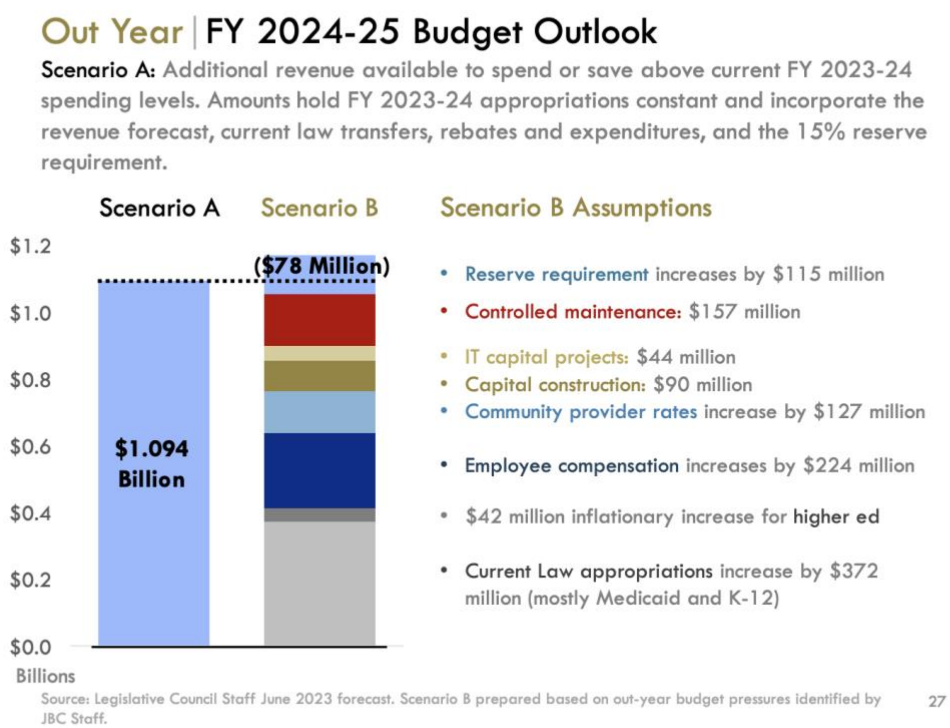
OSPB touted that Colorado's robust labor market and strong consumer demand continue to power Colorado's strong economy and is forecasted to continue to outpace the nation. However, OSPB's forecast is more conservative in future years. They attribute this to lower TABOR surpluses in their forecast. OSPB expects more of an economic slowdown than Legislative Council.

OSPB and LCS had projected that revenue was anticipated to drop in FY 2022-23 based on the March Forecast but have revised their projections upward, to remain flat in the current year. LCS expects the General Fund is expected to end FY 2022-23 with a 17.5% reserve, $337.5 million above the statutorily required 15% reserve. General Fund revenue collections are expected to total $17.70 billion, the same level as last year, with modest contributions from economic growth offset by the income tax rate cut approved at the November 2022 general election. Revenue is expected to exceed the Referendum C cap by $3.31 billion.

The LCS forecast incorporates the 2023 Long Bill and other appropriations for FY 2023-24 enacted during the legislative session. The General Fund is expected to end FY 2023-24 with a 15.2% reserve, $26.0 million above the statutorily required 15% reserve. General Fund revenue is expected to grow by just 0.4% and total $17.76 billion, with modest gains in individual income tax and sales tax collections more than offsetting an expected decline from record high corporate income taxes. Revenue is expected to exceed the Referendum C cap by $2.06 billion after the cap rises by 8.5%.

General Fund revenue is expected to grow 4.5% and total $18.57 billion for FY 2024-25 according to LCS, with state revenue subject to TABOR exceeding the Referendum C cap by $1.97 billion. The General Fund is projected to have $1.09 billion, or 6.1%, more available to spend or save relative to what is budgeted to be spent in FY 2023-24 after the application of current law transfers and the 15% statutory reserve requirement. This amount does not incorporate caseload growth, inflationary, or other budgetary pressures.

LCS presents an alternative scenario that projects additional FY 2024-25 budget obligations based on current law. Under scenario B, graph included below, the year-end General Fund reserve could fall short of the 15 %statutory reserve requirement by $77.6 million.



Overview of Economic Outlook

OSPB, aligned with LCS, reports that since March, the labor market has continued to outperform expectations and consumer demand has remained strong. U.S. inflation and wage growth has continued to moderate, but price growth is currently higher locally than nationwide due to higher local demand for shelter and services. The combination of these factors has prompted small upward revisions to the near-term economic outlook, but slowing consumer demand and tightening financial conditions are expected to slow economic growth in the final quarter of 2023 and beginning of 2024, before recovering over the remainder of the year. By the start of 2025, the economy is expected to complete its rebalancing and stabilize, growing above potential GDP growth. Colorado is expected to fare slightly better than the nation as a whole over the course of the forecast period due to a marginally tighter labor market and a higher proportion of service spending.

Cash Fund Revenue

OSPB reports total cash fund revenue subject to TABOR was $2.67 billion in FY 2021-22, an increase of 19% from the prior fiscal year. Approximately 72% of the overall increase was driven by severance collections increasing $310.3 million year-over-year. In FY 2022-23, cash fund revenue is projected to increase by 3.9% to $2.77 billion, followed by a 4% decrease in FY 2023-24, and 6.8% growth in FY 2024-

25. As compared to the March forecast, revenue came in higher than estimated, largely the result of severance and transportation tax revenue while most other cash fund streams were close to previous expectations. For FY 2022-23, revenue is forecast higher than the March forecast by $78.5 million, or 2.9%, with an upward revision to severance tax revenue driving the majority of the increase. Forecast revenue for FY 2023-24 is revised down by $22.7 million, 0.8%, because of decreased miscellaneous cash funds as a result of legislative changes more than offsetting transportation revenue increases as SB21-260 fees roll off. Expectations were also revised down for FY 2024-25 by $0.4 million from the prior forecast as increased transportation and severance tax revenue expectations are offset by losses in miscellaneous cash funds.

Unemployment Insurance Trust Fund

The Unemployment Insurance Trust Fund (UITF) began FY 2022-23 with a deficit of $133.1 million, improved from a deficit of $1 billion at the end of the previous fiscal year. Declining benefits payments combined with legislative measures helped restore the fund balance from pandemic-related disruptions in 2020 and 2021 by way of SB20-207 and SB22-234. Colorado repaid the remaining federal loan balance with a $33.1 million private loan in November 2022, but resumed FUA borrowing to cover benefits payments in the first quarter of 2023. Colorado has now repaid the outstanding federal loan balance of $77.0 million.

The amount of Unemployment Insurance (UI) benefits paid is expected by LCS to increase to $509.9 million in FY 2022-23 as an uptick in the resolution of back payments and increasing average benefits paid offset continued strength in the state's labor market. Benefits paid are expected to increase in FY 2023-24 and FY 2024-25, to $535.1 million and $589.9 million, respectively, with softening labor markets expected as monetary policy slows economic growth and average weekly wages continue to rise with inflation. Revenues to the fund are expected to total $827 million in FY 2022-23, including a $33.1 million infusion of private loan funds to repay outstanding federal loans in 2022, thereby avoiding an increase in federal UI premiums that would have otherwise occurred on January 1, 2023. The UITF is expected to end FY 2022-23 with a balance of $73.9 million. Fund revenues are expected to increase through the forecast period, allowing continued improvement of the UITF balance. With a $1.2 billion balance expected on June 30, 2025, 0.6% of annual private wages, this forecast expects a shift to a lower premium rate schedule for calendar year 2026.